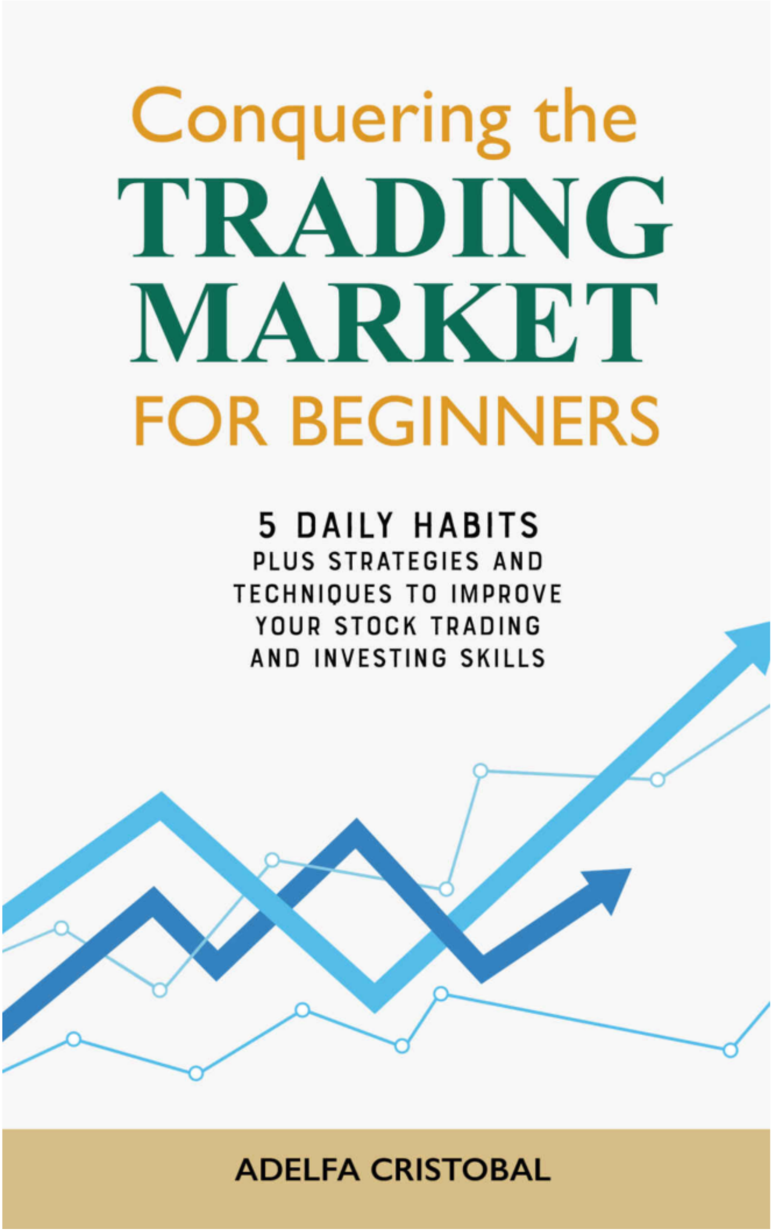
Conquering the
TRADING
MARKET
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5 DAILY HABITS
PLUS STRATEGIES AND
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ADELFA CRISTOBAL

Conquering the Trading Market for Beginners

5 Daily Habits PLUS Strategies and Techniques to Improve Your Stock Trading and Investing Skills

Adelfa Cristobal

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Introduction

In ancient times, the central marketplace of a medieval town was where merchants from all over the world came to buy, sell, and barter. According to Hwang (2020), since these traders came from different nations, a currency exchange had to be set up to ensure that all trades were conducted on an equal footing. In the 1400s, Antwerp, Belgium had emerged as a major hub for global trade. At this point, something very close to present-day stock trading began.

Business owners were buying inventory at a

low price expecting that it would increase in value and allow them to turn a profit. Affluent business owners would charge exorbitant interest rates to lend money to those in need, offering bonds secured by these loans to investors in exchange for interest payments.

When the Dutch East India Company in Amsterdam went public, it began stock trading as we know it today. The business chose to sell stock and distribute dividends to investors to finance its operations (Hwang, 2020). The creation of the Amsterdam Stock Exchange followed in 1611; however, buying and selling Dutch East India Company stock was the sole activity on the exchange for a long time.

Around this time, equivalent businesses sprung up in other nations, and investing in stock became a popular pastime. Most investors, caught up in a frenzy, rushed to buy shares in any available firm without first learning anything about the company. This led to market volatility and, by 1720, investors had become so alarmed that they desperately rushed to unload their stock holdings (Hwang, 2020). Because of this lack of demand, the market plunged.

Although the first stock exchange was established in 1611 in Amsterdam, the United States did not join the fray until the late 1700s (Hwang, 2020). A handful of businesspeople reached the Buttonwood Agreement at that time, tracing the roots of the New York Stock Exchange back to this group of guys who got together daily to trade stocks and bonds. However, even though these are thought to have created the first stock exchange in the United States, since the Philadelphia Stock Exchange was created in 1790, there was not much before the one in New York. In fact, it was crucial in establishing Philadelphia's status as a major financial center. It also improved the United States' westward expansion and the American economy's growth.

This might come as a surprise to you, but the New York Stock Exchange (NYSE) wasn’t always the successful and prominent house that it is today. In fact, it started out as a “copy” of the Philadelphia Merchants Exchange, since it was created and designed to operate in a similar fashion to the first. According to the homepage of the NYSE (n.d.), the founding stone of the establishment was

the Buttonwood Agreement, when 24 stockbrokers signed a document in 1792 to establish how the stock should be traded. The main objective of this action was to “promote public confidence in the markets to ensure that deals were conducted between trusted parties” (NYSE, n.d.). This was the first step to making the NYSE the central establishment it is today in the financial market worldwide.

As investors, you have residual claims to any company you invest in, and in some way, you also have voting rights when necessary. The company is obligated to offer financial reports, profits, and more to you, irrespective of your stock position within the company. Some companies are traded publicly, and some are private. Typically, you will need a lot of money to invest privately and enough connections to be considered an investor. Public companies are much easier to track and join.

Investors' demand and supply affect the value of stocks and the overall market trend, and to make a lot of profit, or at least understand how to invest, you must be willing to study and learn about the market and how it operates.

All these points we have made so far explain the overpopulated stock trading concept. You might already know all these points, and our goal is to go beyond these basic definitions and delve more into the core of stock trading. Note that everything in this book will cover the basics of stock trading but with more depth.

We will begin by exploring the key points and benefits of stocks and the types of stocks. Then we will explore stocks trading and strategies. Next, we will investigate technical analysis, charts, and patterns and pick the right instruments to assist you in trading. Finally, we will conclude by looking at why the mind matters in trading and five trading habits to master.

Undoubtedly, you will be a prepared investor by the end of this book. All the knowledge and information in this book result from years of experience and a keen interest in trading stocks. I have spent years of my life in stock trading, and my goal is to ensure new traders know the right steps to take to actively advance their trading journey.

For the last 36 years, I have worked in the

casino industry in the finance department. My role entailed maintaining balance and order for all cage activities. I did a great deal of paperwork, which meant I needed a great grasp of cage credit policies and procedures for casino play. I also maintained the safety and security of money and chips in the casino cage while ensuring compliance with all anti-money laundering laws and regulations. I began trading 18 years ago and have written this book compiling my work and trading experience. I desire to share my knowledge and hidden secrets with you.

Chapter 1:

Dive Into the Stock Market

Do you remember, some time ago, when the only people who dealt with the stock market were professionals? These people were restricted to stock exchange houses or brokers that understood the market. With the advent of the internet and people's growing knowledge, this has changed. Here, knowledge and study are the essential keys, combined with patience and enthusiasm. Online learning has enabled non-professionals to participate in the market and make their profits. This is so true that some people even go to the extreme of leaving their office jobs to dedicate themselves only to trading. These people are known as traders.

A trader is an individual who is dedicated to

buying and selling financial instruments in the market. They can, for instance, purchase shares of stock at $2 each and then sell them at $5 each, netting a $3 profit. Market research, strategy formulation, trade recording and evaluation, and networking with peers are some potential tasks that may come up in this line of work. According to Elearn Markets (2020), working as a full-time trader has some benefits over the regular desk job, and some of them include managing your own time and enabling a better life balance, working for yourself, continuous learning, and controlling your earnings and losses. Let’s explore some of these better.

The Key Benefits of Trading

Stocks Compared to a Regular Job

Flexibility

The ability to control your own agenda is arguably the most alluring possibility of being a trader. A 9-to-5 job is a classic example of a manner of working that is now considered archaic, with its rigid schedule and monotonous duties. As a trader, you can pace yourself according to your needs, especially concerning stock market education and trading, as well as adjust your schedule to fit your needs. In contrast to traditional employment, self-employment allows you to set your weekly hours according to your schedule, targets, and availability. This might make it easier for you to carry out other responsibilities and tasks that you might need to.

Work for Yourself

Few enjoy being told what to do or working in a group setting. Trading is an ideal career path for those who prefer independence and flexibility in their work schedules or who feel

more comfortable working individually. When you are a trader, you are your own boss, and thus, you can establish your own rules and control.

As a trader, the financial outcomes of your trade will depend exclusively on the actions that you take. Is that something that sounds appealing to you? When working for yourself in the stock market, you can develop the profession at your speed and do your research whenever you're ready or willing to do so. The earnings you make will depend only on yourself and the knowledge you gather along the way. As many of the things in life, the more you learn, the better your skills will become. However, your career development will not be guided by anyone but yourself, requiring discipline and self-control. After all, in the case of problems, the only person who will be accountable is you!

Continuous Learning

Many of you may feel constrained by your employment because of its limited scope of action and strictly set, predetermined duties. Some people are so busy in their work lives that they rarely have time for hobbies, social

events, and sometimes even their families. This means that the possibilities of developing other interests are limited, creating a negative impact on their lives and those that surround them. What time do you effectively have to read a book or learn something new when you have a highly demanding job? With proper structuring, trading will afford you enough time in a day to explore other things, including learning new skills at your own pace. Think about this: With the extra time you have, you can study, enroll in a course, and even start your own business. As the economy and stock market continue to grow, additional opportunities for financial investment will emerge, and there will be more possibilities to learn. Traders can always benefit from gaining more knowledge about the stock market. Think about all the research you will have to do to understand the market and the companies you want to invest in. Or maybe all of the newspapers or online portals through which you will be exposed to news of all kinds. Is there a better way to learn? Furthermore, as the market is living and in constant flux, you will need to be always up-to-date with the most recent information

available, which can lead you to discover new things that spike your interest.

Potential for Gain

Can you count how many times you have faced issues at work because of your pay? Maybe you did not receive an increase because of one reason or another. This means that even though prices are constantly changing, what you make is not. Furthermore, and even more worrisome, is the possibility of salary reductions in a recession. By exchanging stocks, we can solve this issue. The stock market is among the few places where, with careful trading, it is possible to earn returns that far outpace inflation and can award us with more benefits more quickly than a regular job.

When dealing with trade, there is always the possibility of making enough money in a single deal with the appropriate information and approach. Moreover, compensation is based on output rather than time spent in the office and time dedicated to a specific task. This means that trading efficiently and correctly will enable you to earn more for less time devoted as long as you know what you

are doing. Can you imagine making a trade that will result in you earning in one day what you would only get in a week in a regular job? Well, that is certainly something to look forward to!

Healthy Work-Life Balance

Millennials and the other newer generations generally agree that having a good work-life balance is essential. One of the main reasons for this is because of all the years spent watching their parents struggle through the conventional nine-to-five work-life balance. Furthermore, they generally internalize that living conditions create the perception in which this way of living reflects a healthy work-life balance and is, therefore, generally the norm.

The most crucial benefit of being a trader is the possibility of achieving a work-life balance, which is the subject of most of the preceding discussion. It can be difficult to respond positively to the question "Do you have a good work-life balance?" if you're a salaried worker. As a result of the steady stream of emails and responsibilities, many salaried workers find themselves working

outside of regular business hours. Those with families may have less time to devote to them.

Traders who set their hours and work from wherever they feel most productive will find it much easier to build a healthy work-life balance. In this way, you can continue trading at your leisure without sacrificing your ability to attend social events or spend time with loved ones.

There is little doubt that the benefits of full-time trading exceed the drawbacks. If we put in the time and effort to acquire the necessary knowledge, abilities, and techniques, we can establish a sustainable and lucrative career as professional traders.

Stock Varieties

Stock refers to a company's publicly traded shares on the stock market. This means that they are part of the ownership of the company that belongs to you. Investors should be familiar with the available stock options, their characteristics, and when such options can be a good fit for their portfolios. The following areas summarize the numerous stock classes available to investors to reduce potential confusion.

Common and Preferred Stocks

Common stock is also known as ordinary stock, and owning it means you have a stake

in a business. When you think about the stock market and have no knowledge about it, this is probably the first image that comes to mind. A shareholder of this type of stock is entitled to a share of the company's earnings, which are distributed to them in the form of dividends, and to vote in certain decisions that need to be made. This can include electing who will compose its board of directors and determining corporate policies. In case this company in which you have invested and own common shares goes bankrupt, for example, holders of this stock class will be given priority in receiving any remaining assets once preferred stockholders and other creditors have been paid in full. Common stock is the most common type of equity given to a company's founders and early employees (Smith, 2020).

In spite of the suggestive name, those who hold preferred stocks have no voting rights. Also known as preference shares, they are given this name because they have priority when getting paid the company’s dividends. This also means that in the case of a liquidation, they are the first to be repaid. If you buy this stock and change your mind, this

is also no problem! Some of their other characteristics can include the possibility to be converted into common stock or have their value reinstated back to you before the due date. “While the opportunity for significant gains is much lower with preferred stock than common stock, the risk is considerably lower too” (Baker, 2022).

Value Stocks vs. Growth Stocks

When you are looking to invest, the most likely scenario is that you want to make the highest profit in the shortest period of time. If this is the case, you might consider investing in growth stocks. These have as their main characteristic a fast return at low interest rates. However, you need to be aware when purchasing these because they can be priced higher than what they are really worth, not making it worth your while in the short term. On the other hand, if you buy them at a reasonable price, it is likely that you will have a good reward. These types of stocks are typical to technology companies such as Google and Apple.

On the other hand, you have the value stocks. Baker (2022) refers to them as “the less

exciting cousin of growth stocks." The main reason for this is because they do not present earnings as fast as their counterparts. These stocks are generally undervalued due to a company's performance and can perform better when the economy is more favorable. Although this might make them more reliable, investing in these stocks can also be a risk, since you might buy some cheap options because you think that their price will grow, but the company ends up bankrupting and you lose all your investment.

Income Stocks

Income stocks are a type of securities preferred by investors who want to have a steady income. These pay a higher dividend than the market average based on a company's profits and, due to this, are an attractive investment to bet on. If you want to avoid risk, your best option are these equities. Although they tend to fluctuate less and not establish as high profits as the growth stocks, it is a reliable option to invest in. With these options, you will not only be less prone to risk, but it will also enable you to have a more reliable source of income in the long run. If

you want to access these, you can refer to the Amplify High Income Exchange Traded Fund (ETF).

Blue-Chip

Blue-chip stocks are also known as large-cap stocks because they generally belong to large companies worth more than $10 billion. These are well known corporations such as Coca-Cola Company, McDonald's, Nestle, Unilever, and others whose names you are likely to easily identify. Even if you think of it, these companies are dependable, because they are always producing positive results and reliable earnings. They perform well in their markets and, because they are so trustworthy, they are the go-to stock option when the economy is unstable.

Initial Public Offering Stock

When speaking about the stock market, there is probably a small acronym that you have already heard of: IPO. These three letters stand for Initial Public Offering, and it refers to when the company first opens their stock to the general public in a stock exchange house. This means that a company was previously

private (owned by a person, family, or small restricted group) and is now opening its capital to others who want to buy their participation in the organization. Before an initial public offering (IPO), shares of stock are often allotted to investors at a discount to ensure success and profitability.

However, since this is not a guarantee that these initial investors will not sell their participation when the trade of the other stocks begin, a fail-safe known as vesting is generally applied to avoid a decline in prices and the consequent company devaluation. If investing in new companies is your strategy of choice, then you can always go to the electronic stock exchange Nasdaq webpage to find out what the companies are that are planning on issuing IPOs.

Low-Priced Stocks

Maybe you have already heard about something called "penny stocks." They are the same as normal stocks, but they have a value of $5 or less. Many penny stocks trade on the OTCQB, a secondary over-the-counter (OTC) market for U.S. equities that is run by OTC Markets Group, while others make a trade on

major exchanges (Smith, 2020). Although these might seem like an interesting option for those with less resources, when you are purchasing them, it is important to be careful because of the wide gap between the bid and ask prices. Therefore, investors may want to use limit orders when buying and selling.

Environmental, Social, and Governance (ESG) Investing

This is a company's attitude standards employed by socially knowledgeable investors when filtering probable investments. These stocks are based on an organization's concerns regarding environmental safeguarding, social justice, and ethical management strategy. It can evaluate, for example, a company's corporate policies dealing with climate change or its social criteria regarding relationship management with workers, suppliers, buyers, and the operations communities. Governance addresses a company's leadership, the rights of shareholders, internal controls, and executive pay.

When thinking about ESG investing strategies, you need to keep in mind that this is a practice that is followed by both brokerage

firms and mutual fund companies working on ETF exchanges. Younger investors can enjoy different offerings themed by ESG as promoted by Robo-advisors, including Betterment and Wealthfront. As a result, investors who are investing in ESG are also increasingly notifying the choices of investment of large institutional investors such as public pension funds.

Chapter 2:

How to Get Started

Like other vocations or businesses, trading requires potential traders to make suitable preparations and lay a solid foundation to have a satisfactory outcome. Millions of new traders dive into the market yearly without equipping themselves with the requisite knowledge to excel at trading. Thus, most traders leave the market scene after an event of failure or accumulating huge losses. Many people who vacate the market due to failure often share one thing in common—a lack of understanding of the skills required for tilting the odds in their favor and the necessary funds to trade efficiently. In most cases, if a trader dedicates the right amount of time to learning, there are better chances of becoming successful at trading.

Because of all the advantages that trading presents to the potential investor, many people

are attracted to it, even if they do not have a clue about markets, economies, or fluctuating prices—the basics, really. While the most experienced traders will base their trade on information and research, those who are beginning tend to be attracted to recommendations made by others, following what other traders do and investing without trying to obtain more knowledge. Due to this, when the market falls, they do not understand what went wrong and why they have lost all their money. Therefore, it is essential to understand the market and learn before you start taking risks—this includes not placing all your eggs in one basket all at once.

One of the first things you should do is determine: How do I relate to money? Do you have a more conservative approach, or do you like taking risks? Do you have an extra amount that you can invest apart from your savings? Are you prepared to deal with potential loss? Even if you are, can you afford the loss? Essentially, the question is, how do you treat your money?

Knowing this and being prepared with extra savings will not only aid you in starting your trade but will also help boost it. It can also be

an excellent financial backing in cases where a trade fails and you need something to fall back on. Moreover, you must understand that trading is not always rosy. Even the most experienced traders have once lost a few dollars to trading. So, if you are planning to trade, you shouldn't undermine the fact that there will be dark days along the way.

Regardless of the beliefs you hold about the market before trading, your views and opinions will be more effectively shaped by the realities of the market. You need to be aware of the risks you take and take advantage of the opportunities you see. While hard work, trading skills, and charisma are functional and productive factors in producing successful trading, they may not guarantee your financial security when a trade fails. Let’s take a look at some of the main things you need to do to achieve a level of success in trading.

Set Aside Funds

One of the main things to be mindful of when trading is to set aside a certain quantity of money that might be available. This will need to be done before both beginning and while you are trading—you will need funds to start the activity, no matter how much you plan to invest. You can start small or big; ultimately, it is your option. However, the most important thing to remember is that this is a volatile market, and the same way you can make a lot of money overnight, the same can be said for losses.

This being said, I don't recommend investing

all your life savings or money that you will count on in the future. Keep some savings in case there are any unforeseen circumstances or if things get out of hand. For this reason, I suggest starting with a small amount that won't impact your daily life (with things such as buying food, paying bills, etc.). Furthermore, when you set aside a determined quantity to trade, you will avoid leveraging your accounts to fund it. This is especially true for those who do not have experience or are not aware of the risks that leveraging can bring.

Don't Take Risks You Can't Afford

Risks remain one of the most important elements that drive the share markets, and they can be used for good and for bad. Sum transactions that run from millions to billions occur daily in different markets all around the world. Traders trade lots of stocks, foreign exchange currencies, and all types of financial instruments each day, leading to market volatility. When this happens, it is their opportunity to book a profit due to their risk-

taking ability.

Most traders fear taking risks because of the negative connotations attached to it. Often, a trader's aversion to garnering losses due to risk-taking overpower their excitement about the potential profits or gains. The truth about risk is that it is a critical factor you cannot quantify, and while it can lead to greater rewards, in the long run, it can also be devastating to not just your investments but also your savings.

Whether an experienced trader or a newbie, you can typically sum up trading in two words: ‘risk’ and ‘reward.’ The general rule of thumb of trading is that the higher the risk associated, the greater the reward to expect. While this rule typically applies to many situations, it doesn't necessarily mean that you should expect higher rewards whenever you take high trading risks. As such, you always need to review the risks you want to take while trading; this will help you avoid undesirable risks.

A widely known fact about trading is that it requires a persistent and rational mind, as it often comprises a high level of risk. These

risks may be detrimental to your investment, many times wiping out all your savings. Hence, you must ensure that you undertake an amount of risk you can afford. Risk is an integral part of investing and is almost unavoidable for the trader who sets out to succeed. Oftentimes, traders who become desperate to generate profit do not evaluate the level of risk they are undertaking, which may lead to an unfavorable outcome.

Plan Your Trade

Blackman (2021) says, remember an old business expression that goes thus: “If you fail to plan, then you are planning to fail.” This may sound cliché, but serious-minded traders with a yearning for success plan every step. You will be able to see this is true if you speak to a trader who has been successfully working for some time. They will likely say that, while trading, you need to either follow a plan or risk failing.

You have a greater chance of succeeding at trading with a well-written and structured trading or investment plan. Developing an effective approach or methodology for

financial markets can be time-consuming and requires much effort and research. However, getting all these in place doesn't guarantee success as you trade. By developing a comprehensive trading plan, you should know that you have only eliminated one major obstacle.

Employing bad techniques in structuring your trading plan or failing to adequately prepare will directly influence the outcome you have. In this case, there are only two options: Either you succeed out of luck, bringing you quick profits, or you will fail terribly, risking losing all your investments. However, we can always learn from our mistakes, and in the trading business, it is essential to do so. You will be able to do this by recording and documenting your process, enabling you to learn how to navigate new traders' expensive errors. Apart from everything else, trading is a business, and for this reason, you should keep that in mind while working the market. There are huge differences between a trading plan and reading a book. Purchasing a charting program, creating a brokerage account, and diving into trading using real money are all a trading disaster recipe.

You should write down your trading plan with clear signals that are not liable to change as you trade. However, they should be open to reassessment or re-evaluation upon market closure. Understanding market conditions can be responsible for changing the trade plan, and at the same time, you may need to adjust it as you improve your skill level. Each trader should have or write a unique plan contingent on their trading style and goals. Adopting other traders' plans may be detrimental to your trade because it may not reflect your trading goals and objectives, nor would it necessarily be suitable for your style of trade.

Building the Perfect Master Plan

The same way each of us has our own mind and ideas that are characteristic to us, the same can be said for plans regarding your trading. It is highly unlikely that your plan will be the same as another trader’s, no matter how similarly you think. Every plan is unique and has its own characteristics. Blackman (2021) categorically affirms that each approach will show important factors such as the trading style and risk tolerance. Based on

this, the author prepared a list with 10 powerful techniques that can be used before you start establishing a trade (Blackman, 2021). I will drill further into each one of them, allowing you to have a better vision of what to expect during the process.

Have You Tested Your Skills?

There is an amount of skill required in trading, and the wisest option would be to use paper trading to learn about the market and build yours. Paper trading is a simulation that allows investors to practice trading and tests your buying and selling abilities without worrying about losing or risking real money. Before online trading platforms became popular, new traders used to practice their trading skills in a virtual setting. As they learn, a paper trader records all actions and decisions using their hand to keep track of all speculative trading positions, portfolios, profits, and losses. The various online simulators available in the market can be a great way to gain, improve, and master trading skills.

Are You Mentally Prepared?

Before you start a trading day, the first thing you need to do is to ask yourself how you feel. Are you ready or enthusiastic about starting the day? If you are not physically, emotionally, and psychologically fit to face the market, take the day off, says Balckman (2021). Going into the market unprepared or not in your best capacity (you might feel sick, angry, distracted, or any other thing that may cause you not to perform 100%) may cost—literally. And you know what? What I can say is that, even if you are not feeling okay, it is better to stay away for the day than to risk everything.

To kickstart the day, some traders recite mentally and emotionally stimulating market mantras, as it often helps prepare them for the tasks ahead. You know how athletes have their own rituals prior to starting a game? Some of them shake their bodies, others say a prayer, some even dance! You should do the same by creating an approach or a mantra to prepare you for the trading day you have ahead. This will mentally prepare you and allow you to focus on the activities you will need to carry out. Be certain that nothing whatsoever distracts you while trading—these can bring a

negative effect and be detrimental to your day's or even your week's work.

Have You Determined the Level of Risk You Are Willing to Take?

You should endeavor to set your portfolio to a specific risk level. As you know, there are several types of risk that you can assume while trading. They vary from a lower to a higher risk depending on the investment that you want to make. Although this risk can vary according to the situation, you need to keep the risk controlled, preferably below 5% according to specialists, on a normal trading day (*What is Stop Loss [SL] and Take Profit [TP] and how to use it?,* 2020). This means that if you reach this percentage of loss during your trade, then you should quit for the day. Think about this: Stopping while you have not lost as much will give you the margins to go back the next day and try again. And there is no need to worry; after all, this is a small percentage of what you have invested. Focus your energy on something else when this happens and rest to get ready for the next day of trade.

Have You Established Your Goals?

Setting a specific goal before you start your trading day will bring you many benefits. And when I say goals, I mean realistic ones rather than flying high and establishing one so high that it is unlikely that you will achieve it. Establishing a ratio based on risks and rewards will enable you to establish your goal and ultimately achieve it. If you look at some experienced traders' experiences in the market, you might notice that many of them do not invest in stocks that will provide them a potential profit. Potential profit means that what you will earn is at least three times greater than the risk you have associated with

this stock. Suppose you have $3 as your stop loss per share. This means that your per share in profit goal should be set at $5.

The important thing here is to set periodic goals: weekly, monthly, and annually that you can go over and review at any time, adjusting to your needs. Ideally, these will be in either currency amount or in portfolio percentages. Once these have been set, you should not forget about them. Periodically reassess them to ensure that you are sticking to the plan and that your spreads are according to the expectations that were set.

Have You Done Your Research?

You shouldn't just enter the market once it opens without doing your research. Invest enough time to check in on the happenings in trade markets that have already opened and to see what is going on in specific areas of interest. Find out what is happening at that time in the foreign markets or what the index futures for S&P are. You can access this information on specific websites that talk about pre-market periods and provide forecasts. To increase your potential of success, you can review the index futures

before the market opens. Since these are available continuously, it will allow you to be prepared before starting your day and access the information at your earliest convenience.

Be concerned with knowing the earnings due to a particular trade. Professionals make probability-based trades and don't take chances with things they have no information about. You may unconsciously gamble on your trade by acting before the release of reports to the market, since there is no certainty of knowing what the markets will be like until they open and their activities begin.

Are You Prepared to Start?

Before you start trading, it is essential that you have visual aids to better identify the tendencies in the market. This means having somewhere you can look and quickly identify resistance levels—the options are usually for using charts. Although I will dive deeper into the matter in the next sections, you should also ensure to receive notifications and alarms for when you should enter or exit the market. These will help you avoid suffering loss or missing out on a good opportunity. Think about it this way: All professionals need their

tools to work, and even if you are working for yourself as the boss, you will need them, too. Therefore, find the options of support software that can help you and have them ready and tested before you start your trading day.

Have You Determined When to Leave?

When it comes to trading, many think that they should focus more on the time to enter the market and spend a great deal of time looking for these signs. When they do this, they end up missing the signs on the other side of the line, which are when they should exit a specific trade. When this happens, they might get stuck with the stock because they simply do not want to lose the investment that was made and, therefore, refuse to sell. It is advisable to overcome that fear and learn to embrace losses, or you may remain an unsuccessful trader. When there is a hit on your stop, it means that your investment analysis and decision were incorrect, and you might as well just avoid getting the worst of it. Here, I don't want you to think that just because of this minor problem, you are less efficient than other traders. Many

professionals see more losses than wins, the difference is that they have learned how to manage the situation and still make a turnaround to achieve a profit—even if it is minor.

Therefore, before you begin your day, identify your exit point, set an alert to notify you if this number is reached, and write it down just to be sure. It is essential to know when to stop, especially if you are winning. Understanding what the stop loss is while you have a favorable trade will be beneficial for you to decrease potential losses due to market changes. Secondly, ensure you set a profit target for each trade you enter. Once you reach that point, you might want to modify the stop loss if you feel it is adequate and also sell a part of your stock to ensure a profit margin. Once the profits have been ascertained, you can manage the remaining shares the way you see most fit, although most traders will establish a breakeven approach.

When Should You Enter the Market?

While establishing exit rules are essential for you to determine your participation in the stock market, determining what the entry

rules are is also important. One does not eliminate the necessity of the other. To be more effective, you should have a complicated system that, at the same time, is not too complicated to help you make on-the-spot decisions. Let's suppose you set a list of conditions for you to enter a determined market. This list should not be so limited that it does not offer any positive situation for you to enter. If you are ever in doubt, don't be afraid to use a computer and the predictions certain software has. Many traders use this method simply because computers use rationality to make decisions, and these are more efficient than subjective criteria you might establish.

They use a complex system of formulas and algorithms to determine the exact moment to enter and exit, making them reliable. It also helps that they do not have emotions—their child being called by the principal does not affect them, neither do fights with their significant other or potential diseases. Computers just make decisions based on probabilities, and therefore are more reliable than a human to take action.

Have You Thought About Keeping Records?

If you are a person who does not like to keep records, this might be the right time to change this and make it a habit. Efficient record keeping is one of the main skills that experienced and successful traders have, independent of the situation they are in. Should they win or lose a specific trade, they are neither over or underwhelmed by it but anxious to determine where they were right or wrong. If you keep records of what you have done, it will be possible to examine this at the end of the day and see which were your mistakes or your positive actions so that they can be repeated or avoided.

You should keep track of all the information that you deem relevant. Blackman (2021) suggests the trader should "write down details such as targets, the entry and exit of each trade, the time, support and resistance levels, daily opening range, market open and close for the day, and record comments about why you made the trade as well as the lessons learned." Keep in mind to check these notes afterwards: It is not useful to have an effective

record-keeping system if you are not going to use it later. What I mean is that you should save these to better analyze what you did wrong or right or, better yet, identify your wins and your losses. If your notes are organized, they will enable you to perform a complete analysis that includes the average time per trade to identify trade efficiency, drawdown to determine how much you have lost within the year, and other information that might be relevant to you.

Additionally, compare these factors to a buy-and-hold strategy. Don't forget that you are running a business and acting as an accountant. Thus, your major concern will be making profits and becoming successful.

Are You Analyzing How You Are Doing?

At the close of a trading day, you can add up the profit or loss. This, however, will not be as important as establishing the what, when, where, why, and how of the events during that day that affected your trade. To do this and compare notes from the previous days, use a trading journal. Although I will talk more about them in the next chapter, you must

know that having one might just determine your success. Finally, don't be upset if you lose —it happens to the best, and it should not be a reason to give up or perceive yourself as a failure. Remember: You might not win every day, but establishing a trading plan that will be successful in the long term is essential to guarantee a positive outcome.

Chapter 3:

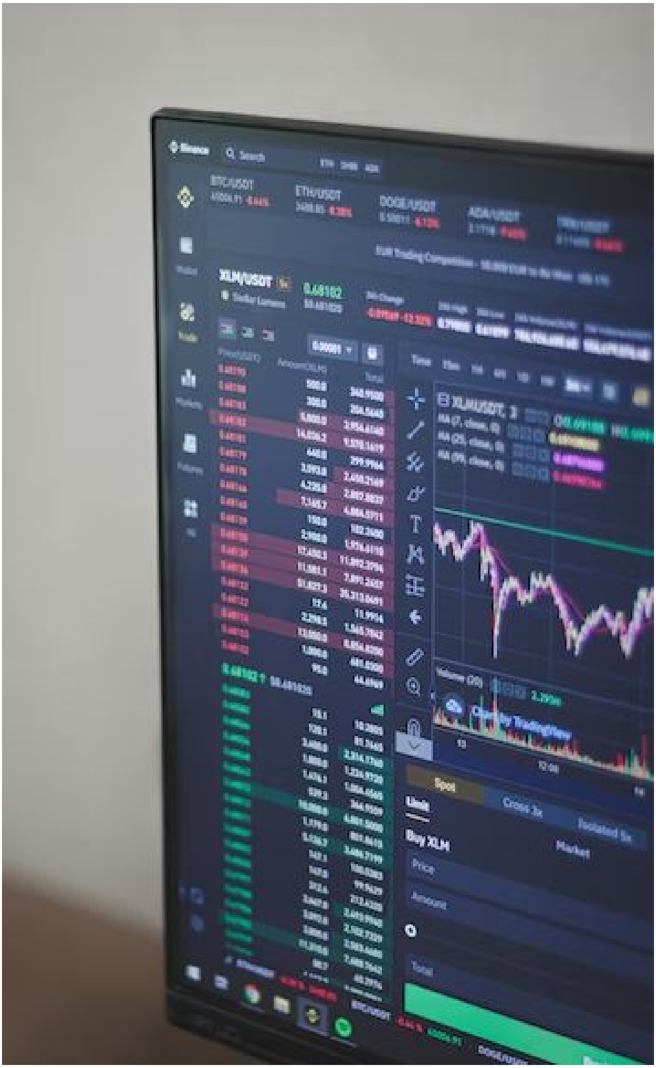
Stock Trading Strategy

Regardless of your level as an investor, you must adopt effective strategies that will facilitate successful trading. Given the abundance of trading strategies today, one that may generate profit for another investor may incur losses for you, and vice versa. Certain factors such as personality type, available resources, and lifestyle must be considered when choosing the best, most profitable strategy.

Although some investors view “trading styles” and “trading strategies” to be the same, they are, in fact, different. A trading strategy refers to a specific methodology used to buy and sell in the market and make trading decisions. Before diving into trading, you must set objectives that will give you clarity as you proceed. By using technical analysis, you can anticipate certain activities in the market even

if it is not a guarantee for success. Committing to a specific trading plan helps curtail our emotions and increase our chances of making profits from the trade.

Applying a strategy to start trading is essential and, for this reason, you may want to apply analysis to identify what the market conditions and price levels are of the investments that interest you. You can employ fundamental analysis in forecasting the movements of prices and concentrating on certain technical indicators. The following statement reflects a trading strategy: “Buy Bitcoin when it reaches $5,000 and sell when it reaches $6,000” (Flake, 2022).



Watch List

One of the important points to note before trading is that you must plan trades. This helps accomplish a successful trading experience, as you can make decisions with a

clear head and void of emotions. One of the abilities you might need to practice is to evaluate a company's situation to determine the trend that its stocks will follow. These require skill, study, and effort, but they will eventually pay off. However, while those above are important technical skills, a trained mindset might be the most important trait that a trader needs to have. Quick thinking, self-discipline, and managing emotions can all be termed "psychological trading" (Curtis, 2020). As a trader, you must be conscious of and deeply understand two important concepts—fear and greed. This is essential because, in trading, several aspects will come into play regularly. And until you grasp your emotions, you will consistently make bad choices. According to Curtis (2020), when you are trading, it is important to keep a few items in mind to avoid making bad decisions. They are the following:

Making Snap Decisions

The stock market moves fast. Due to this, the first requirement is to keep your mind sharp to make decisions quickly, whether it is to invest or to leave a specific trade. This means that

your mind needs to be present for what is being done instead of wandering off in different directions. This will require discipline and keeping your emotions in check. A good way to do this is sticking to your original trading plan and controlling your feelings—be them enthusiasm due to a good trade or frustration because of a bad choice. Avoid letting your emotions take control of the situation, and keep your focus sharpened and a clear mind. By doing this, it will be possible to analyze the situation with more clarity and ensure assertive decisions.

Understand Your Fear

Traders are generally reluctant when they receive news about changes in a country's economy or if there is movement in a specific market. This is especially true if they hold stock in either of the situations. If negative, this news may throw them off balance, making them feel compelled to liquidate their funds and sit on cash. This may cause the trader to fear taking on new risks and become reluctant to invest again. Even when they do, they may become overly cautious, making a run from ventures that may incur losses while

simultaneously losing sight of opportunities to generate profit. Every trader must be familiar with fear—"a natural reaction to an anticipated threat" (Curtis, 2020). The potential profits of traders may be threatened when fear sets in.

However, there are a few actions that a trader can make to avoid fear from taking over their emotions and controlling their decisions. One of them is to quantify the fear that you are feeling. As a trader, you need to evaluate what seems to be scary to you and the reasons why this is so. If you think this might help you, it is essential to do it before you receive the negative news and start investing. Having a forethought of fear helps you manage it better, react expertly, and instinctively anticipate events. Although this might not be easy, especially if you are just beginning your trading activity, they are essential to the practice and to keeping a healthy portfolio.

Overcome Greed

Greed can be a powerful feeling. I can completely understand the desire to hold on to a stock that is continuously generating profits and presenting winning positions. Why would

anyone want to change? And you know what? I know that letting go isn't easy. You might want to benefit from every upward tendency the stock might have, and this can lead you to the worst-case scenario: losing your earnings.

Now, I don't want to be pessimistic here, but I need to warn you that there can be a sudden reversal in the market, and your wish to benefit from the investments might get the best of you. To avoid getting caught in a tricky and greedy situation, trust your instincts. This means leaving when you think you have already profited enough. Remember that there will always be new opportunities and possibilities. Don't let greed get the best of you!

Establish Your Own Rules

When trading, it is critical that you set guidelines that will direct you in case of a psychological breakdown. These rules and guidelines should be established based on your ability to handle risk when trading. To make things clear and determine what action needs to be taken, set a specific profit target and put a stop loss when investing.

Additionally, you might want to build up on certain events. This means that you will decide to take action regarding a specific stock if there is a positive or negative event that directly affects you and your investments. When you do this, you are protecting yourself from losing control. Once you hit the profit target, take it and close the trade for the day. One of the possibilities you may face (and we have to be realistic, here) is that you can also possibly reach your daily limit for losses. In such cases, you must reduce the damage and shift trading to another day.

Do Your Research!

When you commit to certain stocks or industries, you must undertake careful research and gain expertise in them. Stay alert to recent happenings in the market by watching the news, reading, and attending trading seminars and conferences. Spend as much time as you can on obtaining all relevant information to the stocks you want to invest in. These processes may include styling and examining charts, consultation, management discussions, reading journals, carrying out extensive background studies,

and analyzing macroeconomics. Remember how I talked about a fear of investing? Well, equipping yourself with the requisite knowledge can help you overcome it as well.

Practice Flexibility

As a trader, you should develop flexibility. This includes but is not limited to learning to mitigate risk and consider experimenting with options you would not usually invest in occasionally. Experimenting remains one of the best means to attain success, so you can learn and develop your skills when investing. When you do this, you are allowing yourself the opportunity to acquire knowledge and gather information on how others trade and how the market behaves, as well as practice keeping your emotions controlled.

To be a more flexible investor, you should evaluate your returns and individual positions. This includes not only looking at how you perform on any given day but also assessing how you prepare to begin trading, if you have enough information on a company, and what skills you might need to improve to increase your earnings. When you evaluate and assess this trading trait periodically, you will be better able to correct potential errors, modify bad habits, and improve your general returns (Curtis, 2020).

Trading Plan

Now that you have mastered and conditioned your emotions to accept the above points, you can create a trading plan. A trading plan is a detailed decision-making tool that helps one in trading activity (*How to create a successful trading plan, n.d.)*. This plan should be personal, tailored for just you, and adequate for your needs and preferences. It helps to decide what, when, and how much your trading activity should be. While your choice might be to use another trader's outline, you must not forget that their plan will be suited toward their needs, and the approach they have regarding risk can be the opposite to yours.

According to the article "How to create a successful trading plan" (n.d.) published on the IG webpage, when you establish a trading plan, there are a few things you need to keep in mind for it to be successful. These include asking the following questions:

- What is my motivation to start trading?
- How much time will I be able to devote to trading?
- What are my trading goals?

- Do I have a risk tolerance? If so, what will be my attitude toward risk?
- How much can I invest?
- What market will I trade in?
- Do I have a strategy? If not, how can I develop a plan?
- Am I keeping records of my actions to later refer to them?

This trading plan will allow you to work with a stock scanner.

Stock Scanner

The most effective stock scanners are those that meet some unique screening needs without compromising on usability, adaptability, or data quality. The finest scanners include an extensive database of stocks that can be screened precisely using customizable criteria. Some free tools available to help you get started, such as Zacks, have the essential functionality needed for customers to insert their segmentation criteria.

Professionals often tell individual investors to let them choose the stocks they want to buy. They have the tools and many analysts to

assist them in sorting through the vast number of stocks and piles of data. It's probably good advice unless you have a good stock scanner capable of doing the work.

Using a Stock Scanner

The use of a stock scanner is simple. After accessing the scanner, you may select the filters you want to apply based on criteria including price, trade volume, P/E ratio, volatility, chart patterns, and other fundamental or technical indicators. You can layer more filters on top of one another to further refine your search. At first glance, searching through a vast number of stocks to find the right one can seem complicated and scary. A good stock scanner is easy to use and well-organized, so you can find the filters you need and get started with just a few clicks. It's essential to use a stock scanner with many filters and a quick way to sort the results so you can dig deeper.

Also, try to find a stock scanner that fits your investing style. The type of scan you select will vary according to your profile as an investor, since some scanners have a greater efficiency for day trading while others are

more focused for those who want to invest in long-term stock. At the same time, some of these are regional—there are those that only look at U.S. stock markets while others look at markets worldwide. Accurate information is another must-have. Always check to make sure that the data comes from a trustworthy source. Also, make sure it can save your screens. If it can't, you'll have to enter your criteria repeatedly.

These tools help traders and investors to filter and select their options based on the specific characteristics you have provided among all of the available stocks in the market. However, one thing to be mindful of is that these have limits—they only identify the stock based on quantitative metrics. They can't consider changes in management, major lawsuits, labor issues, or competition that could affect how well a stock does. Also, stock scanners that don't use real-time data or don't keep their data up to date could give you late or wrong results. Even though stock scanners can save you time when putting together a list of stocks, you should still do your research to confirm your results or find any problems with the company's fundamentals.

A good stock scanner can sort through the thousands of stocks in the U.S. or those listed worldwide and find the ones that meet your specific criteria and fit your investment strategy in a matter of seconds. The more frequently you use the scanner, the better you get at using it to narrow down your selections to the best investments.

If you're a trader or investor, you need a stock scanner to help you sift through hundreds of stocks to identify the few that satisfy your specific criteria. Fundamental and technical measures can be used as filters, allowing users to restrict the results. The faster the scanner can find you a match, the better the scanning filters need to be. They can also use their criteria to find a better match. When you use measures, the scanner shows the results right away in the categories you choose. Last but not least, use the stock scanner to apply the different methods you want to apply to your investing strategy. You can configure it to create an asset allocation strategy, to work with day trading with quick returns, or for a longer term investment that will be composed of a buy-and-hold strategy.

Trading Journal

As you have already seen before, keeping records is essential for a trader to be successful. According to Mitchell (2022), it is essential to “monitor and review every trade you make.” One of the best ways to do this is to keep a trading journal that keeps tabs on trades and thoughts as the day progresses. When you have a detailed journal, this will allow you to have more information than you would usually find in the brokerage statement and will allow you to review step-by-step what was done for each investment. If done right, it should show how the market has done daily and what mistakes or successes you have made. You can also write down any trading strategy ideas that come to you during the day.

If you are not the type of person who likes to write detailed descriptions in places such as journals, that is not a problem: You can simply write down the most important parts of your trading day in a notebook. Whichever the case is, the focus here should be that you keep a record of the relevant information. However, a day trader can't afford to spend time writing

everything on their mind. Keeping a trading journal while you are trading and when the market is busy could be counterproductive and cause you to miss trades. Mitchell (2022) suggests the quick and easy idea of taking screenshots of your trading activity screen as a simple alternative to writing. Using pictures can help you keep tabs without requiring much attention from you. You can always return to these images and create written and more detailed information.

Tips for Writing Your Trading Journal

There is technically no set way to build or formulate your journal. The only point is to be detailed and cover the major events during the trading day. Beyond these, there are a few tips you can keep in mind when building your trading journal.

- Include the preceding price activity before the trading day or event.
- Mark your start time on the chart with a vertical line or a text note.
- Note down the periods of significant economic events that you encountered. Identify if you traded based on the news.

- Write down any trends or changes in the market that you see.
- If you make a mistake or miss a deal, write it down.
- Maintain as many trendlines and illustrations as feasible on your chart, as long as they don't overwhelm you.
- Use a relevant marker that will be easy to identify when you are done with trading for that day, for example. This can be any recognizable symbol that will allow you to quickly identify when you stopped your activities.
- Type in how many trades you made, how many were winners, how much money you made on the winners, how many were losers, how much money you lost on the losers, and the overall result.
- Don't use dollars because they change depending on your position size.
- Use pips for foreign exchange, cents for stocks, and ticks or points for futures.
- Keep them in an easily accessible area on your hard drive or in the cloud and identify each day's files with the date.
- Try organizing your files in a way that you can easily identify them. This could mean

separating the years and months into folders in your computer or any other way that won't take up too much of your time to find the information you are looking for.
- At the end of each week and month, look back at what you did, look for patterns, and figure out what you did well.

As mentioned earlier, there are many ways for you to keep track of your trading activity, and the best way for you to do this will depend entirely on your preferences. If you want to include screenshots, the easiest way to keep a journal is by using an electronic method. Use a note app on your smartphone, a document service in the cloud like Google Docs, or spreadsheet software. Spreadsheet software can be beneficial because you can put equations in the cells that quickly determine if you're making money or losing money.

One habit that I recommend developing and that is deeply explored by Day Trade the World (2022) is to keep notes at least of the profits or losses that you make daily. In addition to this, you can also take notes about the market and other observations that you think are relevant and that have influenced your trading day. It would help if you tried to

put in a lot more. Any thoughts about why you're making a trade, why it worked, or why it didn't will be helpful to look back on later. Knowing when you entered and left a trade can help you change your strategy. The more data you provide, the more you'll learn about the efficacy of various trading approaches. Day Trade the World (2022) suggests that at least three things are kept in the journal: “A checklist with the assets to trade; the trades that you are waiting for; the existing or completed trades.”

The Benefits of a Trading Journal

Massive benefits have been associated with trading journals, including monitoring your progress in trading activities, allowing you to see the most successful strategies and systems you have employed over time, and much more. Let’s take a look into some of the main benefits of having a trading journal and how it will impact you and your investing activity.

Work on Weak Areas

With a trading journal, you can improve your weakness. While trading, certain systems, and strategies will often work best for you, but this

does not mean that other systems are unworthy and should be let go of. Trading systems take lots of time to develop and require a lot of patience and commitment to see it succeed. However, if a strategy has failed you multiple times, then you may seek a replacement. Before this, though, consider looking through your trading journal to see if there is a pattern leading up to a failed trade. This is exactly where having a trading journal will pay off: You will be able to review your actions after the trading day is over and analyze where you took the wrong action. This will allow you to observe and learn from your mistakes and keep them from happening again.

A Stock's Potential Growth Monitoring

Almost all traders love stock investment in the long term. With a journal, you have all you need. Instead of stock purchase, you can input all available information in your journal, including trends and risks. With enough data gathered, this can help monitor the potential price to a certain extent.

Psychological Trading

A trading journal helps you trade

psychologically and take calculated risk. Don't forget that you can't sideline meaningful risk if you want to make meaningful returns. Emotions also affect trading, but you can get ahead of your emotions with a journal. With your journal, you can reduce your bad trading habits as it helps you understand your past mistakes and avoid them later.

Consistency of Trading

Consistent use of a trading journal helps you grow accustomed to it, and in the long run, you will gain mastery of many aspects of your trade and better avoid certain trading mistakes.

Although I believe that the main benefits of having a trading journal have been outlined, here are a few more reasons for you to keep one:

- It holds you accountable.
- It helps in keeping a virtual portfolio.
- It helps you set an incremental goal.
- It helps in gathering industry-specific information.
- It helps you ascertain each setup's viability.

Risk-Reward Analysis

Taking care of risks helps cut down on losses. It can also keep traders from losing all the money in their accounts. Can you imagine all the risks you face when you lose money? This is definitely a very serious risk, especially if this is something your income depends on. If traders can control the risk, they have a chance to make money on the market. It is a key part of successful active trading but is often overlooked. Even a trader who has made a lot of money can lose it all with just a few bad trades if they don't have a good risk management plan.

While you are enthusiastic about entering a trade to generate profit, don't forget that you should also have an anticipated price. Technical analysis is a powerful tool that allows traders to foresee some market activity before it takes place. Price anticipation comes from previous chart patterns, probabilities of specific trade setups, and the experience of a trader.

Over time, you can eliminate the need for excessive analysis of market directions with

anticipation, including figuring out clear, objective significant areas. When you have a specific amount you are ready to lose for profit generation, you may sometimes not find it difficult to anticipate the market entry price.

Anticipation vs. Prediction

Some traders often refer to technical analysis as “black magic” when it comes to timing the market (Investopedia Team, n.d.). While some people might imagine that traders have a “superpower” that allows them to predict what will happen in the stock market, this is not a true fact. In reality, what they do is develop and create certain strategies to forecast what will happen—this includes using probability and studying to identify the chance that an event will occur.

Realistically, every trader would love to enjoy what seems most pleasing to them if asked to pick tops and bottoms consistently instead of spending time staring at their computer screen. In my professional opinion, I find it hard to imagine that when starting in the trade market, you have never tried to pick tops and bottoms in tandem with traders with more experience. If you have, there is nothing

to be ashamed of—many people do this, and it is considered completely normal for starters. It is so common that the Investopedia Team (n.d.) suggests that you are likely "already following in the footsteps of many professional traders who attempt to find situations where they can anticipate a move and then take a portion of that move when the setups occur."

When you identify a trader that has vast experience, you will see that they are able to predict the results of the trade based on the market movements. They, of course, sometimes are incorrect and may buy stock that will soon start presenting results that go against them—this means that their analysis was wrong, and they might have to put a stop to the losses. However, if their expectations turn out to be correct and the stock turns out to perform in a positive way for them, they can choose to change the stop points for their trade and earn even more—this will allow for greater profit margins depending on the market's reaction.

When traders perform these analyses, what they do is called "analyzing bars." In this case, the bars refer to the images that are seen on screen regarding the movement of a

determined paper. The bars will visually expose the information if the stock is going up or down and are given this name because of the way they are presented. One important point to mention here is that while candlesticks or line charts are usually terms used in trading, some professionals use the word “bars” as a more generic term (Mitchell, 2021).

If you are prepared and have conducted enough analysis and research to understand the market, you will have strategies that include tools that will help you identify patterns in the stock that is being negotiated. This will make it easier for you to determine the entry and exit moments in the market. When you are anticipating the trade, you are likely basing your decisions on information that was already previously available and, therefore, you can expect a similar result. On the other hand, “Unlike anticipation, which uses past results to determine the probability of future ones, making an accurate prediction often involves a combination of luck and conjecture, making the results much less, well, predictable” (Investopedia Team, 2022).

Entry Targets

Notwithstanding the investment venture you undertake, stock or bonds, each time the markets open, you are exposed to new opportunities to execute your trading expertise. However, you may not enjoy a high yield trade every second; this implies that studying the market movements, including the price, is beneficial before entering any trade. This is where the subject of "entry target" comes in. Entry target refers to the price at which a trader or investor buys or sells a financial instrument. A thorough analysis of the security value must impact the best trade entry target choice. For instance, if, after analyzing it, you have an under-price as the outcome of your analysis, that means it is a good entry target. But if your analysis shows overpriced with bleak probabilities for future growth, you should not rush into the trade.

In simple words, the entry target is the price level at which you, as a trader, acquire a financial instrument. Ideally, every investor has the entry target as their first contact point with the market, allowing you as a trader to access your choice of financial instrument. The

entry target is the point at which you transact the security.

On the other hand, there is the "target price"—the price level you hope a security item will reach after some time. The best target price evaluation includes an in-depth analysis of the historical costs of the instrument, including the potential price at which influencers committed to acting later. It includes maximizing your rate of return as a trader by buying financial instruments when the trading isn't above the entry price while selling them once they go beyond the target profit.

Understanding Entry Points

As a trader, you need to either buy or sell, enabling you to access your choice of security. Generally, the entry target is referred to as the price at which you transact. For instance, a trader who explores and discovers a nice stock but thinks the price is too high may decide to buy the stock once there is a decline in the stock price. This is known as the entry target. In trading, patience and self-restraint often aid traders in earning high returns on their investments. Entry points and exit points are

integral aspects of return maximization. An investor must ensure enough space between the entry and exit points, creating a suitable risk-reward ratio for sustained portfolio growth.

Optimizing Entry Points

Trending Markets: If you are looking for a good entry point in the market, the best way to do this is to analyze trends. You might be able to find a short consolidation time or even a short countertrend movement in the market that can easily be identified if you are analyzing trends in the stock you want to purchase. To do this, you can use some of the tools most investors rely on, such as trendlines, moving averages, or indicators. These will allow you to determine the optimal points of entry that will best suit your investor profile.

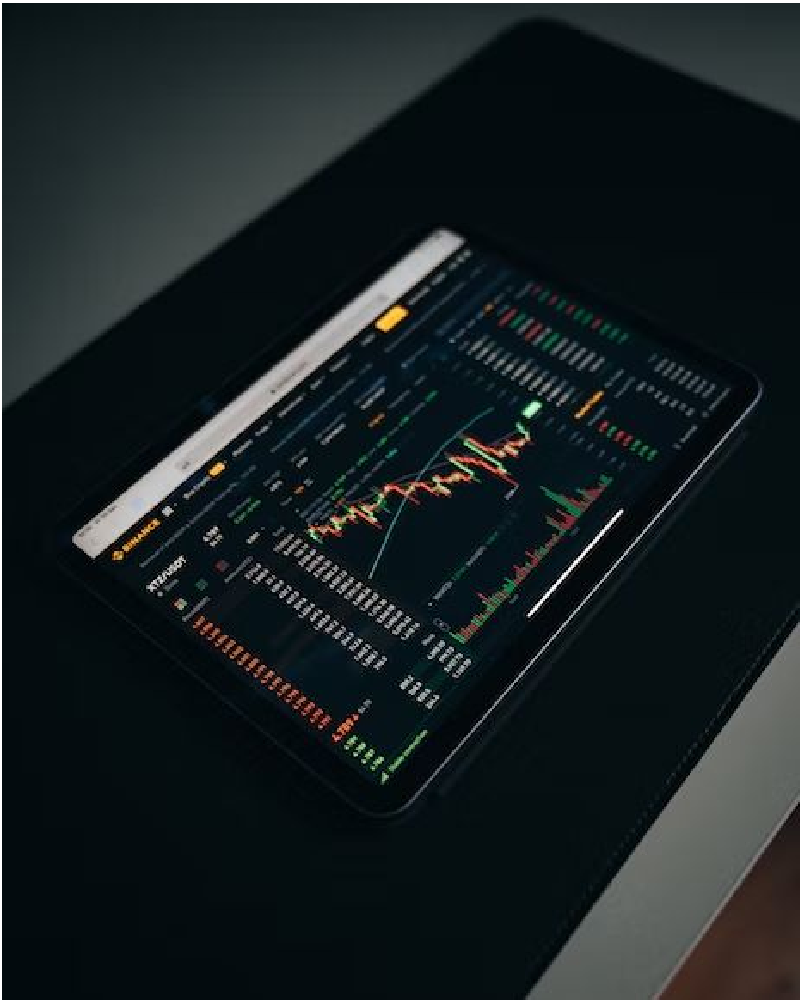
Range-Bound Markets: Suitable entry points in range-bound markets are typically near key support and resistance levels. Connecting peaks and troughs with the use of trend lines help in interpreting support and resistance areas on a chart.

Streamlining Entry Points

You can streamline trade entries with strict rules in place. For instance, a trader may generate an entry point using his trading strategy when a stock strikes out its 200-day

moving average and the moving average convergence/divergence signal line crosses 0. To further automate the process, you can program entry targets into trading algorithms that place trades automatically when you meet the conditions. Management of risks and exit points should also be included in algorithms.

Stop Loss



As a trader, you would always want to enter the market with one major expectation—to make a profit. No trader enjoys the market moving against their profit expectation. Both stop-loss and take-profit orders have you shut

down trading when it is time. While the stop loss is designed to let you know the amount of money you are ready to risk trading, the profit is just the exact opposite of it, as it informs your broker of the amount you are ready to make as a profit.

The stop-loss and take-profit options are an integral part of trading and important tools traders can leverage. Almost all brokerages have these tools, and since these are very important, it may also be necessary to check with your service provider (*What is Stop Loss [SL] and Take Profit [TP] and how to use it?, 2020)*. With insufficient or inappropriate research about taking profits in trading, there are huge chances that most of the gains may elude you. Therefore, it is essential that you study and gain experience working with them so that these tools can be used to the best of your available resources. You should make them work for you instead of having them be a burden you do not understand, further complicating your life.

How to Use Stop-Loss and Total Profit Orders

As you might have guessed, the process of

learning how to use these tools is not easy—it can take time, from days to months, before you have the full grasp of how to operate them. Using the stop-loss and total profit requires you as a trader to look at a wide range of assets and calculate thoroughly using different formulas as it determines the specific time a currency pair can get to the apex price and the exact time that too much is likely to happen.

Most traders prefer going for a stop loss at the start. With this, they can experience the market more should there be a bit of loss for the refusal to place take-profit orders. Regardless of your level of confidence in trading, you can experience a profitable session turning into a nightmare in a split second. On the other hand, you can also watch a small loss grow massively within the blink of an eye. Due to this, you should always be alert: When you trade, keep an open eye to stop-loss and take-profit orders.

Using Stop Loss

Suppose that there is a particular stock you have that you are holding onto. However, out of the blue, the price starts to drop and you see yourself lose money. This could very well be because of a stop loss. A situation known as stop loss happens when there is a particular order to sell (or buy) a stock when it reaches a determined value. Whether you are active on your device or not (a smartphone or a computer), a stop-loss order does not go inactive. You can open trade as well as ignore it all night till morning. If there is a massive change in the exchange rate, your account remains under protection with the stop loss. You might now be confused regarding how this system works and how to set it up. Well, you do have options. You should first identify and learn about the main types of stop-loss orders to answer these questions. These include the following:

Percentage Stop

You wouldn't need to tell your broker the exchange rate to close your order. Instead, you can let your broker determine the percentage

of all the investments you are willing to lose. For instance, if you are trading at $1,000 and are willing to lose 10% of your trading amount ($100), you don't have to tell your broker you are willing to lose $100. All you must do is let them know that you are ready to lose 10%. Immediately, the broker can identify the amount. This is a simple way to put a stop-loss order in trading using percentages. Once you understand that you are losing 10% without meeting your trading expectations, you can quickly exit the trade to prevent further losses.

Chart Stop

When mentioning “chart stop,” we are talking about the most commonly used option for stop-loss orders. This means that you will be looking at the stock charts and will determine a specific point when the chart indicates a certain value. Let’s say that you are currently working with an EUR/USD chart. Right now, the exchange rate is at 1.365. However, your gut tells you that it could rise to a higher number within the hour. Here, what you want to do is place a stop-loss order if the value decreases below a certain price. For example,

you could determine that if the chart reaches 1.2500, you will place a stop loss, simply because you know that if it starts losing value, it can decrease even more. To reduce your potential losses, you will place this stop-loss order. One thing that should be considered, however, is that these types of actions might require some technical analysis, and because of this, using another alternative for a stop-order can be applied if you think it might get too complicated.

Volatility Stop

This is a stop-loss order where the trader shows an asset's volatility. Volatility refers to how often there may be a change in a currency pair and price. It is regarded as high volatility if it does so every second with many pips. There will be low volatility if there is the opposite. However, calculating how much volatility is too much for you is up to you. You may inform your broker of what you prefer. From the above, you can see that there are different ways to calculate the stop loss in trading. It is up to you to choose the option you find the most comfortable to work with.

Take-Profit Order in Trading and

How to Use It

When you perform a take-profit order, this means that you let your broker know that you are closing your trade because you have already made enough. With the take-profit order, you can avoid losses that may occur a split second after you experience a massive profit acceleration.

As a trader, you can evaluate the maximum growth you can derive from a certain currency pair within the next day or even the next hour, allowing you to set a take-profit order according to how you want it (*What is Stop Loss [SL] and Take Profit [TP] and how to use it?, 2020)*. Once the exchange rate gets to the set amount, the reader will bring your trading session to an end; after that, you can leave with your profits.

There is no difference between how you place a take-profit order and how you place a stop-loss order. It could be with a percentage, chart, or volatility; there's no difference. There are several possibilities as to how one can decide to structure their stop-loss and take-profit orders, but a general way to do so is to use a 1:2 risk/reward ratio (*What is Stop Loss*

[SL] and Take Profit [TP] and how to use it?, 2020). Targeting a 20% profit means you are willing to put 10% of your investment at risk. At the same time, this is largely based on the market's situation.

Profit Targets

Suppose you are trading and you identify that the prices are dropping. This might mean that it is the best moment to step out and reduce your losses. Although the action of getting out is not difficult, knowing the right time to do so might be a challenge because of the constant changes in the market. Therefore, you need to keep close attention to clues that might suggest changes in trends and large-scale reversals that might occur. Short-term traders find this chore easier than long-term traders who have been programmed to not only open trade but also walk away—holding firm through long buying and long selling cycle pressure.

If you want to work with a successfully proven strategy in trading, you can always apply the buy-and-hold approach. If this is your option of choice, then ensure that you determine an

exit timing to provide you with the best profit spread. One of the advantages of the buy-and-hold is that it uses code and algorithms to search for the rise and decrease of prices, leading to changes in the market. This is especially true for investors who use the technique and apply it to end trade sessions and enforce their exit positions. If you think that these are aggressive forms of investing, you are right, but there is no signal that there will be any change in the future. If anything, the trading scene tends to get even more aggressive, making long-term strategies harder to apply (Farley, 2022).

The good part about these algorithms is that they can help you by providing signs that there will be a change in the market. By using them and observing the market, you will be able to identify potential alerts to the change in stock prices, especially those that are decreasing or that may present a reversal. If you are aware of the movements, you can produce a stronger comeback instead of having to wait for the perfect conditions to present themselves.

High-Volume Days

Ensure to keep watch of the average everyday volume of more than 50 to 60 sessions and watch out for trading days with more than three times the volume or beyond this number (Farley, 2022). Events such as this, occurring in the position's direction, indicate good news, regardless of whether it is long or short. However, you will be sent a warning when they oppose the position. You should be even more cautious if you identify that there is a break in the level of the support or resistance during a swing break (Farley, 2022).

Additionally, you should be mindful of the pressure that is a constant: buying when there is an uptrend on the on-balance volume (OBV) or other indicators, and selling when there is a downtrend, which can also be seen as distribution. According to Farley (2022), when you have a high-volume trading session in either direction, the accumulation-distribution pattern will be lower and, therefore, it might point the trader to the ideal place to start investing in a profit-taking stage when the market is in uptrend. The same can be said for when the market is in downtrend: High-volume trading days will allow you to better identify when you should buy if the stock

prices begin to decrease.

Another possibility that you should consider are the days referred to as "climax." "These sessions print at least three to five times average daily volume in wide-range price bars that extend to new highs in an uptrend and new lows in a downtrend" (Farley, 2022). When you do this, you will be able to see the climax bar pop up at the end of the price swing. This will happen mainly after there are too many deals for stocks being "overbought" (uptrend) or "oversold" (downtrend) (Farley, 2022).

Failed Price Swings

"Markets tend to trend just 15% to 20% of the time and are caught in trading ranges the other 80% to 85% of the time" (Farley, 2022). When you have trends that seem to be strong in either direction of the trade, you need to consider what will be your profits and your losses. Since these generally consolidate a stock price, it might make you consider the investment made and invest in a stock that will make more profit, or let go of one that is not lucrative. However, this is not just an all-natural process but also part of strong trend

development. When a trading range opts out from the range in the opposite direction of the primary trend swing, it turns out to be a top or bottom.

When there is a change in the price of your stock, it might be the warning signal that there is about to be a change in the trend. This will be especially true if there is a reversal. In this case, you need to be careful, since the changes are fast and can lead to a breakout or a breakdown. If these fail, it could mean that you are dealing with a predatory algorithm that targets investors: The targets are generally investors in an uptrend or short-sellers in a downtrend (Farley, 2022).

One thing that you need to keep in mind is that your strategy might not always be successful. If you have a breakout or breakdown, you might feel tempted to exit—and that is okay. In this case, you will gather whatever profits or losses you have had and get ready to re-enter the game. This is considered the right thing to do because it will mean that you have overcome the failure event. One of the most frequently seen moves is for the price to go the other way after there is a failure in the market. In these cases, they

will likely enter a trend in the opposite direction from the one it was before.

Moving Average Crosses and Trend Changes

When thinking about moving averages, we need to consider what is called an Exponential Moving Average, or EMA. There are three types that are used in the trading market: short-term, meaning they have a 20-day EMA; intermediate, that have a 50-day EMA; or long-term, which have a 200-day EMA (Farley, 2022). When you are performing analysis for your stock, you will need to look at these moving averages by considering what the bond is between the three lines that represent each of the periods. When you have the short-term EMA lower than the longer term average, this might mean that there is a greater risk in long-term stock and that the funds you have invested are in danger. The contrary situation can be applied for short sales: The danger will be present if the short-term line goes above the one for the long-term. “Price action also waves a red flag when the intermediate moving average changes slope from higher to sideways on long positions and lower to

sideways on short sales" (Farley, 2022).

When you see that there is the threat of change to a trend, avoid sticking to the expectation in the modification of the long-term average. The main reason for this is that the market can remain inactive for that specific stock for some time, and getting out while you still can will help you reduce the potential losses and the opportunity cost. Although you might see the opportunity to re-enter in the future with a change in trend, it is better to avoid risking your money in an unstable environment.

Chapter 4:

Technical Analysis

Many investors look at the fundamentals of a stock, such as its revenue, valuation, or industry trends. However, the market price doesn't always reflect the fundamentals. The technical analysis considers price and volume data from the past to predict how prices will move in the future. When you want to create a bridge between the actual value and the market price of a stock, the suggestion is that you try applying statistical and behavioral analysis to the market to establish and determine the difference (Hays, 2021). Analyzing the past will also help in the prediction of what will happen with your stock: Use the technical analysis to determine the likelihood of what will happen and the trends that the stock is likely to follow. Most investors decide what to do based on both technical and fundamental analysis.

Technical analysis is valid because it is based on the idea that the buying and selling of all market participants accurately reflects all relevant information about a traded security and, as a result, gives the security a fair market value all the time. Technical traders think the best way to predict how prices will move in the future is to look at how prices have moved in the past or the present. Technical traders aren't the only group of traders that utilize technical analysis.

There are also traders who are known as fundamental. This means they “analyze a company’s financial statements to determine the fair value of the business” (Hayes, 2019b). These traders use this type of analysis to determine if they should or should not buy into a determined market—it is essentially based on hard evidence that is made public by organizations. If they accept that the risk is reasonable, they can decide to buy stock in this company. However, once they do, they will need to apply the technical analysis to find good entry places and low-risk points to buy.

How Should I Use Technical

Analysis?

If you want to perform a technical analysis, there are two ways which are generally applied in the market: top-down and bottom-up. The format you choose will depend on the type of stock that you are planning to invest in. Getting started with technical analysis involves a few steps. The first and most essential one is to assemble a trading system or strategy. For example, a trader who is just starting might decide to use a moving average crossover strategy (MACS), which we will discuss further along in this chapter.

When you understand the reasons and logic behind each technical analysis that is performed, you will be able to see the trends and establish your strategy. When making decisions, there are a number of investors who use both fundamental and technical analysis. The main reason for this is because one will cover the information that the other is missing —in other words, it will fill in the gaps in knowledge. Traders and investors can improve their long-term risk-adjusted returns by learning technical analysis.

According to Seth (2019), “short-term traders will take a top-down approach and long-term investors will take a bottom-up approach.” Let’s take a further look at what each of these mean and how you can apply them.

Top-Down

When you apply a top-down analysis, you are looking at the full picture of the situation. This means that you will make your decisions based on a macroeconomic analysis that will base the results in several general economic facts rather than those which are more specific. When you analyze a stock based on the top-down approach and focus on this type of investment, you will be “investing prioritizes macroeconomic, national, or market-level factors” (Kenton, 2020).

This means that you would first look at the economy in general, then to the respective sectors, and finally, to each of the companies that you are interested in. While you are trading, you might identify that a specific country or region is outperforming the other. Due to this, you might want to shift your focus to this area in an attempt to improve your earnings. You would then look for specific

companies within this specific region to see where you could invest your money based on their performances.

The most common people to use this investment technique are those who are interested in short-term earnings rather than those interested in long-term earnings. An example provided by Seith (2019) is that "a trader may be interested in stocks that broke out from their 50-day moving average as a buying opportunity."

Bottom-Up

Instead of looking at the economy, the bottom-up method looks at individual stocks. It means looking at a stock that seems interesting on its terms for possible entry and exit points. "For example, an investor may sight an undervalued stock in a downtrend and use technical analysis to find a desired entry point for when the stock might be bottoming out. They try to make good decisions and have a long-term view of their trades" (Seth, 2019).

When you are investing and want to look at the situation from a bottom-up perspective, this means that you will start small and then progress to the bigger picture. Essentially, it is

the opposite of what you would do in the top-down approach. You might start with a specific company, move on to the sector, and then look at the country or region. It is all a matter of how you set up your strategy and what your plans are. However, one thing that I can say is that most of the time, short-term traders look at things from the top down, while long-term investors look at things from the bottom up.

Volume-Weighted Average Price (VWAP)

VWAP is a technical analysis tool employed by traders on intraday charts that starts afresh at the beginning of each fresh tracing round. VWAP is a trading standard representing the average price traded by securities throughout the day, depending on the volume and price. This technical analysis is crucial to trading as it exposes traders to pricing insights, like the security's value and trend.

Understanding VWAP

> Make "VWAP calculations by adding the dollars you trade for individual

transactions (price multiplied by the volume) and dividing by the overall trade shares.

VWAP = Total Typical Price x Volume/ Total Volume

Typical Price = Price at High + price at Low + Closing Price/3

Total = Sum from the opening of trading session" (Fernando, 2022).

Calculating VWAP

When you include the VWAP indicator in a streaming chart, you automatically make the calculation. Nevertheless, here is how you can calculate VWAP yourself in a method presented by Fernando (2022):

- Have a 5-minute chart assumption. Calculating VWAP does not change, notwithstanding the intraday time frame used.
- Check out the stock price average over the first 5-minute day period. Doing this requires you to sum up the high, low, and close, dividing the outcome by 3. Then, multiply this volume by the period's volume. Write down the outcome in a spreadsheet under the PV column.
- Use the period volume to divide the PV, and you will arrive at the VWAP.
- When you add the PV value consistently to the values you had before, you will be able to retain the VWAP throughout the process. Once you have the total final value, use it to divide this total.
- The last step might be easier in a spreadsheet by creating columns for cumulative PV and cumulative volume and applying the formula

to them.

Using VWAP

Traders have multiple ways of using VWAP. It is used as a tool to confirm trends as well as to create surrounding rules. For instance, traders may need to assess sticks with prices below VWAP with less value and those with prices above it with a high value. Traders may be enthusiastic about going long on the stock should the prices below VWAP move about it. At the same time, traders may consider selling their positions or instigating short positions if prices above VWAP move below them.

Moreover, institutional buyers will attempt buying below or selling above VWAP each time they can. Rather than pushing the price away from the average with their actions, they push it toward them.

Moving Averages

A moving average (MA) in finance refers to a trader's stock indicator popularly employed in technical analysis. MA calculation of a stock is focused on helping to smooth out the price data by formulating a non-stop updated

average price. By calculating the MA, you can smooth a stock price over a certain period and analyze the impacts of random instabilities in the short-term on a stock price over a certain period.

Understanding a Moving Average (MA)

The calculation of MA helps determine a stock's directional trend or its support and resistance level. The main reason for this is because it is based on a trend that you are following or a lagging indicator—mainly because it is based on prices that were established in the past. If you think about it, the greater the space between the MA, the greater will be the lag between the MA. For example, suppose that you have a 200-day MA and a 20-day MA. Which one do you think will present the most reliable prices?

With the 200-day MA, there will be a greater lag degree when compared to a 20-day one because there is a larger period of analyzed prices. Investors largely follow 50-day and 200-day MA figures, while traders believe they are integral to trading signals (Fernando, 2019).

When calculating MA based on their trading objectives, traders may go with various periods with different lengths. Typically, traders use shorter MA to trade in the short-term, and long-term traders prefer long-term MA. Although predicting the specific stock's future movement is impossible, technical analysis and research can provide clues to predict better. A rising MA indicates a security uptrend, and a security downtrend is signaled by a declining MA.

Furthermore, a “bullish crossover” confirms an upward momentum, and it happens when a short-term MA goes above a long-term MA (Fernando, 2019). Contrary to that, a “bearish crossover” confirms a downward momentum and takes place when a short-term MA goes below a long-term MA. Here is a fun fact: Are you able to relate these figures to the statues of the bull and the bear that are in New York City? It is a widely known fact that the bull, which is located in front of the NYSE, refers to when the market is trending upward and the bear when it is moving down.

Types of Moving Averages

According to Fernando (2019), there are two

different types of MA. They are known as the Simple Moving Average (SMA) and the Exponential Moving Average (EMA). Both of these are commonly used by traders when they want to evaluate the values of stock. Their definitions and methods of calculation are:

> “**Simple Moving Average (SMA):** This is calculated by taking a group of numbers or stock prices and adding them and then dividing them by the total amount of numbers in the group.
>
> **Exponential Moving Average (EMA):** Begin by finding SMA. After which, using the formula [2/(selected period + 1)], calculate the multiplier for weighting the EMA.” (Fernando, 2019)

Using Moving Averages

Traders mostly use MA in technical analysis, an investing branch that seeks to know and profit from the securities and indices movement pattern. Normally, technical analysts leverage MA when figuring out whether a momentum change is taking place for a security, such as if there is an unexpected downward move in the price of a security.

Traders use MA to confirm their skepticism that a likely change may occur.

Momentum Oscillators (MO)

Momentum oscillators refer exactly to what the name might suggest: It measures the changes in the prices of a stock based on a certain period of time. This factor is calculated by a simple division task, when the current price will be divided by the price established in the previous period, and finally multiplied by 100 to reach a percentage. The tendency is for the outcome to be a number near 100. However, if this number is not up to 100, it means that it has a falling price, and thus, it represents negative momentum.

Understanding the Chande Momentum Oscillator

CMO is like other momentum indicators, measuring momentum on both up and down days without smoothing results and triggering more frequent, excessively sold and excessively bought penetrations. Usually, it oscillates between +100 and -100.

How the Indicator Works

When using the MO to analyze your prices, it is important to remember that it has no upper or lower boundaries and, therefore, it is essential that you visually observe the line history. This means that if the MO gets to a value that is too high or too low when related to its historical values, it should be assumed that the current trend is consistent. If you have visual access to these lines, you will be able to draw a horizontal line at the upper and bottom limit boundaries, indicating a possible overbought or oversold condition when the momentum line reaches them.

However, it is always important to remember that because there is no upper or lower limit, what you decide will be practically based on observation and interpretation. While some securities might have their prices increase if there is overbuying, it can also move lower if there is overselling. If you feel that you are ready to enter this type of trade, use the MO or price analysis to gather your information. Beware of divergences: They could mean that there is a price reversal if the MO does not confirm a new high or low.

Moving Average Convergence Divergence (MACD)

When we are talking about MA, there is another indicator that needs to be taken into consideration. This is the Moving Average Convergence/Divergence (MACD), which helps traders to identify the relationship between the direction and the speed of a determined trend. According to Dolan (2022), "MACD has a positive value (shown as the blue line in the lower chart) whenever the 12-period EMA (indicated by the red line on the price chart) is above the 26-period EMA (the blue line in the price chart) and a negative value when the 12-period EMA is below the 26-period EMA."

The MACD will give the trader an indication of when they can enter or stop a trade: If it is higher than zero, the price will go up. However, if it is below zero, this means that a "bear" period will begin. Visually, you will be able to see this as two lines; one that is faster, representing the MACD, and one that is slower, which represents the moving signal line. These will be important because if the

MACD line goes below the signal line, it means that the price will go down. However, if the opposite situation occurs and the MACD line goes above the signal line, then the prices will go up.

When you look at which side of the zero the indicator is located, you will be able to identify the signals that you need to follow: If it is above zero, then you should buy once the MACD crosses the signal line. However, if the MACD is below zero, then this means that you could carry a short trade.

Chapter 5:

Charts and Patterns

Traders often make decisions using charts and patterns. When they use visual aids, they can learn about signals and transitions between rising and declining trends. A price pattern is a noticeable configuration of price movement identified using a series of trendlines and curves (Hayes, 2021). When it shows a change in the direction of a trend, this is called a "reversal pattern." The main characteristic of a sequel pattern is that it will take place when the trend doesn't stop the direction toward which it was going even after a short break. Traders employ many patterns when trading, and one of them is called a chart pattern. This type of chart shows a shape according to the price and helps them decide the action to be taken on the trade option based on past events.

Using Trendlines in Technical Analysis

A series of lines or curves are used in recognizing the price patterns, so there is a need to know what trendlines are and how to draw them. Trending lines are straight lines drawn on a chart by bringing together a series of declining peaks, coming down peaks (highs), or climbing through lows (Hayes, 2021). An uptrend line suggests that the prices are going through higher highs and higher lows. To draw the up trendline, you must ensure to connect the ascending lows. On the contrary, an angled downtrend known as the down trendline happens when prices go through lower highs and lower downs (Hayes,

2021).

Hayes (2021) claims that, historically among specialists, there have been discussions about which part of the price bar should be used. There are arguments that can be applied for both using the candle body bar and the wicks on the top and at the bottom of the candle body. In the case that the option is for using the candle body, it could provide a more accurate reading; this is specifically true if we are talking about the data points that are found to be outside the "normal" range.

These charts can generally represent any period of time, although those that describe the daily activity are more frequent. Most of the time, those involved in creating these charts, also called chartists, will not use highs or lows to draw the trendlines. Instead, they will use closing prices and the value that the stock closed the market with on that day. Here it is important to take note of the following: In order for a trendline to be more reliable, it should have at least three points rather than two.

Flag Pattern

When traders refer to the “flag pattern” of a stock, they generally mean the resemblance that connecting all the dots in the trend will have to a flag on a flagpole. For you to have a better visualization of this, I want you to think about the following: You have a stock that goes through an explosion in price, either up or down. This will be what is known as the flagpole. Next, picture a diagonal pullback in either direction. This will have a similar symmetrical shape to a flag. If you combine both, you will have what is described as the flag pattern.

Now, if you have an increasingly upward trend that is followed by a small and constant decrease in prices, and then another increase, this means that you have a bullish flag, meaning that the tendency is to go up. On the other hand, if you have a decreasing tendency followed by a small and constant increase, and then another fall, this means that there is a downward direction and, thus, a “bearish” flagpole.

Bull and Bear Flags

As you have probably identified from my description above, the bear and bull flag patterns show the price change and movement that repeatedly occur within several timeframes in the market. Applying technical analysis terms, traders refer to this as a continuation pattern resulting from their pre-occurrence across different time frames in financial markets, as they are used to this occurring before the trend that preceded their formation is continued (Murison, n.d.)

The strong, almost vertical price spike that I have explained to you in the previous section will generally start this pattern. In this case, the short-sellers are usually surprised in a manner they have never thought of, since they experience an uproar as more buyers start appearing with interest in that specific stock. Upper and lower trendlines are plotted for parallel diagonal nature reflection. When the trendline breaks once more as prices surge back in a high trend, exploding through to another breakout and uptrend activation, it forms a breakout. The bull flag can be powerful to any extent depending on how

sharp the spike on the flagpole is—this is especially true because many traders see this formation as a positive pattern (which it, in fact, is).

But don't be mistaken here: There is no relevance to the flag shape itself besides the psychological reaction that a trader gets when they see this trend on a screen (Fundora, 2021). Of course, this can be either negative or positive depending on the tendency. When you think about the explosion that the "flagpole" will have, think that it might sometimes lead to an even higher position, leading the shares to be picked up at a faster pace. An example that you can take into consideration is the fact that, when there is a market rally, the bull flag will simultaneously appear, and the same goes for the opposite direction.

If you are trading and you spot the bull flag appearing in the tendency, you will need to expect a few situations. They are:

- The stock in question will be consolidated near or on top of the pole in a reduced volume. This is what will start the flag formation.

- Because of the strong upward movement, the pole was formed and a high volume of stock was negotiated.
- Even though the bull flag means that the stock is gathering some momentum and can be beneficial for your trading strategy, you can opt to leverage them at the moment you see most fit.
- When there is a trend continuation, a high volume of stock will break out of the consolidation pattern.
- The bull flag is a trustworthy tool to look at. They will work similarly to a daily chart, enabling you to carry out swing trading.

How Should I Trade with the Bull Flag Pattern?

Since we are talking about a positive tendency when we mention the bull flag, you can imagine that trading during this period will not be too hard. However, what you need to keep in mind is that keeping up with the tendency in real time might pose a challenge. One of the tools you can use is a scanner, since there are some that have a specific feature to make this activity easier. And you know what? The best part is that you can easily use them

whether you are a starter or an experienced trader.

To make this an easier task for you, I have constructed a checklist that you can refer to when trading in the bull flag pattern. According to *Bull Flag Chart Pattern & Trading Strategies* (n.d.), here are the main steps that you need to consider when in this situation:

- The first thing you should consider is that the stock is probably rising in a high volume because there was a catalyst event. Although there can be many of these, it will most likely be something that came from the news.
- Once the price has reached a high or is close to it, this will be identified with what we mentioned is the pullback pattern.
- You should work to buy the stock you are interested in when there is a high volume and it is above the consolidation pattern.
- Prepare to place a stop-order once the price of the stock is below the bottom of the consolidation pattern. This will be essential to increase your earnings.
- Strive to achieve the goal of a 2:1 risk/reward ratio when negotiating the stock.

When you think about this trading pattern, the

most important thing to look for is the volume. The main reason for this is because it will be responsible for confirming the main moves, and it makes it likely that there will be a successful breakout. Furthermore, keep in mind to look at the downward trendline, located at the top part of the flag. Applying a statistical approach will enable you to know when to leave the market and avoid losses. This is especially true if what you had planned and were expecting is not being fulfilled—if you reach this conclusion based on the numbers, it might be a good moment to exit.

As you have probably deduced by now, there is not one specific strategy that defines how to trade this stock in the "correct" way. One of the most common ways that traders go about this is to stop below the area of consolidation. "The other way is to use the 20-day moving average as a stop. So if prices close below that moving average, then you would close out your position" (*Bull Flag Chart Pattern & Trading Strategies*, n.d.).

Here, I want to leave you with one last thought about trading in the bull flag: "It's not about trading the best pattern, it's about trading patterns on the strongest stocks" (Bull

Flag Chart Pattern & Trading Strategies, n.d.)

Comparing the Bull and the Bear Flags

As it has been mentioned, the bear and the bull flags are similar, although they represent opposite tendencies in the stock market—the bull represents an uptrend while the bear represents a downtrend. I believe that you are now able to identify each of them if they show up on your screen, and that is an excellent thing to know! Bear in mind that the main point here is to be aware of the potential breakouts that can lead to the creation of the flags.

For you to do this, it will be essential that you follow the volume of the stock independent of the tendency which you identify. Waiting to buy or sell at the right moment might be the advantage you have on other traders, which may lead you to making a larger profit or containing the losses. Be sure to keep your eye open since you will not be the only one that is looking and waiting for these movements.

Comparing the Bull Flag and the Flat Top Breakout

You already know what the bull flag is and how it is created, but how does this compare to a flat top breakout? That is a very good question, indeed. The main difference between both is that when you have the flat top breakout, you will see that the stock is being negotiated below the high. This means that the stock will be negotiated with a few cents in difference between the highs instead of doing the same where there are a couple of red candles. You will see that in this case, the pullback will be slower and that the moving average will also have a smaller gap.

Now, suppose that what you want to do is buy while the bull flat is at its high. What would you do? Well, I am almost certain that your answer is that you would be waiting for the flag to reach its low point so that you can move on with the purchase—even if this requires waiting. The general suggestion here would be to buy the first candle after there is a pullback. This will ensure that you have the best risk/reward ratio. After you have done this, stopping at the bottom of the flag will prove an efficient strategy.

Now, if your objective is to improve your position by leveraging the stock you already

have, you can sell when the value reaches the spike. This will allow you to make more money even if there is a major pullback. Keep in mind that the bull flag will not always be presented in a neat form. Sometimes they can be a little messy, and you will need to use your observation powers to identify that it really is what it is.

ABCD Patterns

Demonstration of redundant patterns is common in the market, where prices move from a set price to price ratios, resulting in the possibility of price projections. Geometric connections can define market trends by demonstrating harmonic connections between price and time swings (Duddella, 2016). Many traders use cycles and harmonic relationships as leverage to swing future projections regarding price and timing. Due to this, it is often possible to identify symmetry rallies and declines, since what are known as harmonic prices give traders an edge to figure out when the major turning points will happen. One of the ways to identify this is to use the ABCD chart pattern, generally referred to as the

AB = CD, to exemplify what happens in the market.

Traders can easily figure out opportunities relating to buying and selling in all markets, regardless of the time frame, with the help of harmonic patterns. H. M. Gartley was the first to describe the ABC and AB = CD patterns in his book, *Profits in the Stock Market* (Duddella, 2016). Trading harmonic patterns has one major benefit—they help traders determine the ratios of risk/reward at an early point as they predict the market's turning points and traders' profit targets. The ABC pattern can be a recurring or reversal pattern, having a lightning bolt shape.

When you are looking to identify the highs and lows of a market, you might use this technique where the A, B, and C key inflection (pivot) points need to be identified in a chart during formation. They will be determined by not only these movements, but also based on the correction and flow. Usually, Fibonacci retracements (0.38 to 0.618) of AB swing predict the potential C point while the pattern is traded in the trend direction of AB from C to D (Duddella, 2016).

Trading the ABCD Pattern

Once you have reached the completion of the ABCD pattern, you should wait for it to be confirmed. This will indicate if there will be a reversal or if the prices will be confirmed. While there are several different options for the trader to enter or confirm the tendency, the most common one happens when “C” is reached after a two-bar high for a bullish pattern or a two-bar low after a bearish pattern (Duddella, 2016).

ABCD Patterns

When talking about patterns, I could also mention what is called the traditional version of the ABCD pattern. It consists of two legs: AB and CD with a connection between both. Each letter has a meaning to it when it refers to price. They are, according to McDowell (2013):

- “A: Morning rally to a new high
- B: Midday consolidation and pullback
- C: Higher low and grind-up breaks though the morning high
- D: Raise to a new high of the day”

Importance of the ABCD Pattern to Traders

Besides being a great starting point for trading beginners, ABCD patterns are simple and easy to learn. Traders have so much to enjoy from the ABCD pattern, and some of the reasons include:

- It helps traders make a decision on where the risk/reward opportunities are and enter their trades. With this, they can avoid chasing a stock and getting bounced from a midday pullback.
- It's the basis for a wide range of patterns.
- It has an accurate prediction of the market reversal as well as helps traders in planning outstanding high risk/reward trades with a high winning percentage.
- It helps in identifying trading opportunities in a variety of market conditions and timeframes.
- Lots of ABCD pattern convergence indicates a strong trading signal.

The ABCD Pattern in Trading

This pattern is an intraday chart pattern that helps in revealing how the market moves naturally (McDowell, 2013). It has an initial

up or down movement while a short consolidation follows it. It is then followed by another leg to or down in the original move's direction, giving it a very similar form to a zig-zag appearance. Traders often leverage the pattern when forecasting the continuation of a trend or its reversal based on the point where the entry is made. These will be determined by where the “D” pattern will occur and if it will represent a resistance or support in the market.

Meaning of the ABCD Pattern

In the ABCD pattern points, if you have the trend pointing upward, this means that you will have a bearish reversal. “The initial intrada swing from A to B consolidates briefly in B to C. Then, once the C to D portion of the move is complete, it often signals a bearish reversal. From A-B and C-D bulls are pushing the stock higher and higher with aggressive demand. It is also why the consolidation in C produces a higher low” (McDowell, 2013).

The contrary can also happen, when the seller will control the full trend through the whole tendency, or from A to D. After three consequent movements, or “waves,” it is likely

that the last price established will be the final one. In this case, A, B, and C will indicate that D will be a downtrend.

Drawing an ABCD Pattern

The initial step you need to take to draw an ABCD pattern is to identify the first leg from A to B which will generally be a sharp move up or downwards. Once this is done, you can consider the B to C pullback anticipation. To achieve the correct drawing, pause a little until the top or bottom forms on the B to C pullback, then proceed to attach this line to the first line you have drawn from the high of A to the low of B. Finally, you'll start your third and final trendline from the high of C to the low of D. According to other schools of thought, you can connect the middle of the trend, which will effectuate a more symmetrical ABCD pattern.

ABCD Pullback Strategy

When applying the ABCD strategy, you have other options to choose from rather than the traditional approach. Some traders choose to take action during the BC pullback, since the AB leg provided an upward tendency. Others

choose to anticipate the movements and buy before it reaches the D portion and, for this, they buy during the breakout. In some cases, the breakout might be an opportunity when you consider the moving average. All of these actions and decisions will depend on the strategy the investor has chosen to use for their market approach on that day.

How to Scan for ABCD Patterns

For traders enthusiastic about scanning for the ABCD pattern, the best way to go about this is by searching for intraday momentum. You will often discover trending upward or downward stocks immediately after the market's opening. These will be easily identifiable in your visual aids or conversation platforms. Rely on these to correctly identify the upcoming pattern. Remember to write down if you are identifying any high highs and if there is an upward or downward movement. This might be essential to determine if you should pursue a determined stock and at what moment.

A primary responsibility while trading is verifying that a stock you have put on your watchlist makes a new high on good volume for pullbacks. You will want to closely keep a

tab on the stock, regardless of the ABCD pattern strategy you may have employed. If you buy the pullback for a scalp to D, you should always remain aware of your moving averages (McDowell, 2013). Similarly, if you decide to short at D to trade the classic pattern, there is also a need to observe the stock.

As you closely observe the stock, McDowell reminds you to ensure to look out for any pivot points, levels of Fibonacci, or VWAP boulevard lines that could provide you with a confluence area to reinforce your short thesis (2013). Every trade is made more effective with considerable verification and confirmation at frequent intervals.

Wedge Patterns

A wedge is a price pattern identified on a price chart by converging trend lines (*How to Trade Wedge Chart Patterns in Forex, 2011)*. These lines help bring together a price series' respective highs and lows throughout 10 to 50 periods. Traders can determine if the highs and lows are either on the rise or fall at different rates, with wedges showing as the lines get close to convergence. Traders find wedge-shaped trend lines important to their tracing activities because of their potential price-action reversal.

Understanding the Wedge Pattern

A good sign for the wedge can be if there are bullish or bearish reversal signs that are associated with three different points:

converging trend lines, declining volume pattern, and breakout from the trend lines. When working with wedge patterns, you will see that there are only two possibilities: one that represents the bearish reversal, the rising wedge, and one that represents the bullish reversal, or the falling wedge.

Rising Wedge

When there is a rise in the price of a security, the rising wedge takes place over time. However, it can also take place amidst a downward trend. A rising wedge formation happens when there is price consolidation between upward-sloping support and resistance lines (*How to Trade Wedge Chart Patterns in Forex, 2011)*. When this happens, you will see that the support line's slope is steeper than the slope of the resistance, meaning that the formation of higher lows takes place faster than higher highs. These movements will result in the formation of a wedge pattern. Traders should be aware that something big is about to happen once there is price consolidation. Due to this, they should expect a breakout to either the top or the bottom.

On the contrary, if the formation occurs during a downtrend, the signal could be a down move continuation. Whatever it is, you can execute your entry orders when you notice this trading chart pattern.

Falling Wedge

As you have just read about the rising edge, the falling edge contains some of the same characteristics, but in reverse tendency. While the signal still can be a reversal or a continuation, this will happen when the first is in the bottom of a downtrend and the later in an uptrend. As you might have guessed, since the rising wedge is the bearish chart pattern, the falling will be the bullish. When there is a reversal signal, on the contrary to the previous section, we will have lower highs and lower lows with steep lines connecting them, sometimes making a move upward.

What Are the Trading Advantages for Wedge Patterns?

Although many strategies do not perform better than a buy-and-hold, you can use them to your advantage to a certain point if you are looking for a fast return on your investment.

To identify price patterns, some traders use statistics and past references to determine if their forecast is correct—and most of the time, they are. But they are not without failure. Scott (2022b) claims that when using the wedge pattern analysis, it is more likely for you to determine correctly when there is a falling wedge than a rising one, essentially stating that it is more dependable.

When you use the wedge pattern, it will prove to be an asset and efficient strategy because they present with a smaller range in the prices, making the difference between your entry and exit points very close. This means that you will have a smaller risk and that if you manage to place your alerts in the right place, you will be able to enjoy more profits and returns.

Chapter 6:

Picking the Instrument

Many factors are associated with picking the most suitable instruments to trade. Traders with limited knowledge of trading may often make impulsive decisions when picking instruments; this shortage of experience may propel them to pick the instruments they are most familiar with and have minimal knowledge about, in contrast to choosing the instruments that will be most beneficial to their trade.

On the other hand, experienced traders sometimes choose to trade using different instruments for more solid reasons, such as portfolio diversification, better management of risks, potential benefits from more market opportunities, and many more.

As a trader, you may pick your choice of instruments by following market analyses. To do this, you must have read a couple of

articles or watched news dedicated to a certain instrument. Moreover, today, there is an avalanche of resources available to the trader who needs to make crucial trading decisions, like picking the best instrument for your trade; there are resources that could provide you with information on the best trading opportunities as well. Some of the most popular instruments that nearly all experienced traders opt for include dividend stocks, Exchange Traded Funds (ETF), Growth Stocks, and IPO, among many other trading instruments.

You must understand that some instruments have the same movement and others have opposite directional movements. Understanding them may be instrumental in making sound decisions when picking trades. Interestingly, when you trade a signal in an instrument, there are chances that signals are equally active in other markets, exposing you to bigger chances of success. For instance, this is always the case if you are a forex trader or engage in forex options.

A good number of binary trades you may make will have a minimum of one or two substitutes with which you could trade instead

(*Picking the Best Instrument to Trade*, 2013). When you know the relative strengths and weaknesses of various trades, picking the best market to take your long/call or short/put trades becomes easier. However, you must compare all instruments with each other to note the pros and cons of each and select the best for your trade for a smooth trading experience.

Dividend Stock

This refers to a publicly traded company that shares profits regularly with shareholders through dividends, meaning that they are paid in shares and not money. However, these companies that issue stock dividends do not

only tend to be consistent in profit but are also committed to paying dividends in the predictable long run. Generally, investors or traders may be after the latest highflier stock that would bring them higher profits in the stock market, but with stock dividends, they will certainly get a significant portion of their total return over time.

When this occurs, you will have a dividend stand. This means that the profits an organization makes is shared with its investors and shareholders according to the number of shares available in the market. Therefore, when traders buy dividends, they do so expecting to receive some of its profit in return, but that is not always the case. Some organizations might choose to reinvest this money in the company so it can grow, leading to a retention of the funds and leading the trader to get capital gains. Because these companies present a solid position in the market, buying one of these instruments from a healthy organization might give you the possibility of a steady return on your investment. And here is the best part: You do not need to sell your stocks to obtain a return!

How Dividend Stocks Work

Before you can benefit or profit from a dividend stock, you need to own shares in the company of your choice. When the organization pays your dividends, you will get an automatic cash deposit in your account, which is why it is essential to have a brokerage account if you choose this type of instrument. However, a few reasons may warrant the payment of dividends; typically, it remains a major way of sharing the profits of the firm or companies with its shareholders or owners. On the other hand, if there is a shortage of business opportunities when reinvesting the cash themselves, shareholders or owners may not get the expected dividends.

The payment of a dividend occurs periodically, generally every quarter, but this is not an established rule in the market. One example happens with special dividends that are occasionally released in the market and paid only once—they are rare and not expected to happen with frequency. For a dividend to be issued to the market, it needs to be approved by the company's board of directors, and this information is shared with the market by using a press release in the

main media outlets. In some cases, the transaction might be completed by an SEC filing. Here are the main dates you should be aware of if you are interested in these instruments:

- **Date of Announcement:** This is the day the company lets prospective shareholders or investors know about its dividends plans.
- **Record Date:** Investors the company records as shareholders on this specific date will be the ones to get the dividend payment.
- **Ex-Dividend Date:** A day when shareholders or investors who buy the stock will not get the next dividend payment.
- **Payment Date:** On this date, shareholders can get the dividend payment.

The Difference Between Small and Large Stock Dividends

Independent of the total amount of dividends, the value does not change. This means it will remain the same in both the perspectives of the investor and the company. One of the main requirements for the company who issues dividends and the trader who buys them is to keep an accounting journal. This will enable you and them to identify the value of

the stock issued, the retained earnings, and the amount that was paid in money.

Companies can issue either a small stock dividend, which means that the value of the shares represents less than 25% of a total value of shares before the emission of the dividend or a large stock dividend, when this percentage represents more than 25% (Chen, 2019). To exemplify this, let's use a a couple of examples with numbers:

In a given situation, suppose that a company has announced a 5% stock dividend on its 100,000 common stock shares. According to them, the par value will be $0.50 and the market price will be $3. Once the dividend is announced, the market price value will be used to assign its value. The math you should make in this case is: $100,000 x 5% x $3. This means the dividend will have a value of $15.000 and that the company may distribute $2.500 of common stock. This value was determined by using the formula $100,000 x 5% x $0.50.

Now, let's use the same numbers to assume that this organization will announce a 40% stock dividend instead of 5%. To find out the relevant values, all you need to do is

substitute the 5% from the previous example with 40%. This means that the dividend will have the value of $120,000 and a total of $20.000 in stock.

Why Are Stock Dividends Issued?

As you might have correctly guessed, when a company issues dividends, in a way they are diluting the company's stock. This is because every time a dividend is approved, those who are already investors can receive an extra number of stocks for a determined quantity of dividend. However, independent of the situation, the market value will remain the same of these shares; you will only have more, thus creating a dilution in the stocks that can be compared to a stock split.

You might be asking why a company would do this, since it seems to be harmful for their financial health. One of the possible reasons is the lack of liquid cash to pay out the investors, while another can be because they want to save their resources for a determined reason. Therefore, this might not be the best approach for a company in some situations, but it will prove to be especially favorable for the investor because they will have an increase in

their number of stocks that can prove to be an asset if the share prices rise.

Exchange-Traded Funds (ETFs)

When you think about an ETF, you might probably associate it with a mutual fund. This is because they operate in a similar way, as investment securities that can track an index or a sector, among others. However, the difference here is that an ETF can be traded in the stock market just as if it were a regular stock, as its name suggests.

To give you a few more details, I can say that an ETF is a collection of different investments, including stocks and bonds. They allow traders and investors to put their money in a wide range of securities at one go. Their fees are often lower than other fund types. Although trading them is easier, they are not a one-size-fits-all solution, unlike financial products.

The structure of an ETF makes it easy to track anything, from individual commodity prices to large and different securities. Investors also leverage the ETF's structure in tracking certain investment strategies (Chen, 2021).

Making Sense of ETFs

Since you already know the basics about an

ETF, we can now go into further detail. Just as stocks change prices throughout the day in a regular trade, so do ETFs. The difference here is that the trade of an ETF happens only once a day, at the market's closure.

Another difference that you need to know is that while one stock means you have one stock; when you consider an ETF, it means that there are other assets within it, making it a favorable option for those who are looking to diversify their investments within the market. Some of the investments that ETFs can contain include bonds, commodities, stocks, and other instruments. To illustrate this example, we can say that the ETF can contain stocks from different companies in different industries, for example. They do not need to be assets from the same company or even the same sector—sometimes it can even be from different countries! This will depend largely on how it was built.

In the United States, these funds are generally characterized as an open-ended fund. They must also be subject to the Investment Company Act of 1940, unless there has been a change in the regulatory requirements (Chen, 2021). In an open-ended fund, there is no

limit to the number of investors, and the same applies to ETFs that obtain this characteristic. Furthermore, you can also buy parts of the ETF and sell them throughout the day.

How ETFs Work

The exchange-traded fund works like this: The underlying assets belong to the provider of the fund. Additionally, they are responsible for designing a fund to track how they perform and to sell the shares in that fund to traders or investors. A portion of the ETF belongs to shareholders; However, the underlying assets in the fund do not belong to them. In spite of this, those who invest in ETFs are susceptible to receiving dividend payments or reinvestments on the stocks that belong to the fund.

Apart from an ETF tracking an underlying asset or index, whether it is a commodity such as gold or stocks such as S&P 500, their prices are also market-determined, which is not always the same as that asset. As a result of different factors such as expenses, ETF returns will differ in the long run from its underlying assets.

Let's take a look at a quick step-by-step view

on how they work:

- Providers of the ETF create a collection of stocks and other financial instruments and give it a unique identifier.
- This ETF is made available to the market.
- Investors decide to buy a share from this fund.
- Buyers and sellers in the exchange house trade their participation throughout the day.

Buying and Selling ETFs

If you are looking forward to buying or selling shares in an ETF, there are many ways to do so: through brokerage, which will allow you to pay commission, or through online platforms. When you buy and sell them by using investing applications and other online platforms, it is most likely that you will not need to pay any fees, but this will depend on the rules each of them has. You get the market price on the exchange by the time you place orders when you buy or sell ETF shares. However, it is essential that you know this exchange may not be stable throughout the trading day. On the other hand, a mutual fund specifies the value of a net asset upon the closure of each day's trading.

You also get the price depending on the value

of the net asset calculated after your order submission when you buy or redeem fund shares. Investors enjoy greater flexibility in trading. Thanks to intraday trading, ETFs' pricing tends to provide them with this benefit as the investors can keep a close eye on the performance of the price and not have to wait until the day ends before they can find out their purchase or sale price.

To generate profits, the first essential thing you need to know is to research the instruments that are part of the ETF. Just as with other investments, you will make a profit if you sell for more than you bought, but this will only be possible if you know what you are investing in. Therefore, before placing your money on an ETF, ensure that you look into it and analyze some of its past performances. Companies may either invest the income or pay it to the shareholders, whether quarterly or annually, based on the structure of the ETF. You must not forget that there may also be a value decline in ETFs. Of course, when there is a fall in the value of the ETF, you, as an investor, may want to sell, and losses are inevitable.

When you are looking to invest in an ETF,

remember that you can sell them short if you experience any trouble or have reached your profit margin. Some investors believe that these instruments are a great way to invest and apply them to their strategies, while others are not willing to take the risk and deal with the costs they might incur. As a result, it may not be generally recommended for a trader or an investor who is enthusiastic about incremental investing strategies such as dollar-cost averaging: You may watch your investment returns being washed away as a result of the charges you pay for each purchase or sale.

Finding the Right ETFs for Your Portfolio

Generally, there are lower costs associated with ETFs; at the same time, the issuer may make decisions that vary from fund to fund, investing in the demand and complexity. Moreover, different costs are associated with ETFs tracking the same index.

Most ETFs are passively managed investments; they track an index. A hands-on approach to mutual funds is one of the choices most investors prefer. This approach entails the

mutual fund being run by a professional manager trying to surpass the market's performance. Although some ETFs may copy the structure of mutual funds, it is important to keep in mind that some might have higher fees to pay. This is why you must carefully study them before making a purchase.

Many investors or traders may not be able to diversify them much. Therefore, you should always remember that a cheap ETF does not guarantee or necessarily mean it will be a nice fit for your broader investment thesis.

When you are looking at an ETF to invest in, Chen (2021) suggests looking at criteria such as volume, expenses, performance, holdings, and commissions. All of these will play an important part in deciding the best investment for you. You can also use an ETF screening tool that is offered by brokerages that will enable you to have a better view of the possibilities available.

Growth Stocks

Although I have already touched on the subject of growth stocks, let's make a small recap: This instrument refers to any shares in a

company expected to grow above the market expectations. Despite the growth associated with this stock, they typically do not pay dividends. Most of the issuers of these growth stocks are companies that want to grow in the short term by reinvesting their earnings from the previous period (Hayes, 2019a). When investors put their money in growth stocks, they look forward to earning money through capital gains by the time they sell their shares at a later date.

Learning the Basics

When you think about growth stocks, the first thing that needs to come to your mind is that they are traded in a price-to-earnings ratio (P/E). Although these are generally high, they might start off with a low earning. However, they will later gain momentum and you will be able to earn some profits if you can anticipate the buy.

Another thing you should keep in mind is that these kinds of stocks are risky. The main reason for this is because there is no dividend offer and, thus, the only opportunity to earn money is when you sell your stock. If the market is favorable, it will be possible to make a good profit. However, if the market underperforms or the company does not do well, you will need to take the loss when you sell your shares.

One positive thing about growth stocks is that they all have some similar traits, such as unique product lines, patents, or technologies that make them stand out in the industry (Hayes, 2019a). Most of these companies use a reinvestment technique to develop more products and stay ahead of their competitors,

making them benefit in the long run for growth. Because of these traits, most growth stocks have loyal buyers or investors with a large quantity of these companies' shares in their portfolio.

For example, in creating a computer application development company, they may be the first to offer new services; this may turn out to be a growth stock by attaining market share, the earliest company to come up with such an innovative idea. Should any other company dive into the market to offer the same services, the largest number of users will be for the company that manages to woo them, giving them the chance of potentially becoming the growth stock (Hayes, 2019a).

It is common for some people to mistake a growth stock for a value stock. Although they might seem like the same product, they are, in fact, very different. The main distinction here is that while growth stock is bought looking for high earnings in an underlying company, value stocks are generally ignored by the market even if they might eventually gain value. With growth stock, "This expectation can result in these stocks appearing overvalued because of their generally high

price-to-earnings (P/E) ratios" (Hayes, 2019a). When investing in either of these, the approach will depend on the trader. While some have a little of both in an attempt of diversifying, others tend to specialize in one or the other. Negative media attention and unsatisfactory reports on earnings often make value stocks underpriced. On the other hand, a strong history of dividend payout and with a reliable reputation, value stocks tend to be chosen for the constant performance or time in the market that a company has, even if it has a less attractive P/E ratio.

IPO

The IPO, or a company's initial public offering, is one of the most exciting things that can happen—both to the market and for the organization. When the decision to launch an IPO is made, this means that the company that was previously private will make an offer of its shares to investors. This can be done for several reasons, but raising money from private parties is one of the main ideas. These IPOs tend to be made public and create a lot of noise around the launch. For the previous

private owners, this presents a special opportunity because they will receive premium shares while public investors buy stock in the company.

How the IPO Works

Issuing an IPO is a big step for a company, but it is also entailed with a lot of responsibility. The main reason is because once they have their stocks in the market, they will need to show credibility and transparency in order for their shares to have good sales. The first step of the process is for the company to announce its intention to become public. In the United States, this will only be done if they believe that they can comply with all of the SEC regulations. The most common scenario for these companies is to “go public” once they have reached a valuation of $1 billion, when it is given the market name of a “unicorn company” (Fernando, 2021).

On the other hand, reaching this parameter is not an excluding requirement. Other companies who have proven to be profitable and have a strong structure will also sometimes go public. This will essentially depend on their performance, competitors,

structure, and other relevant factors that the board and the SEC take into consideration. Once the company has decided to launch an IPO and has announced this to the public, it will need to determine at what price their shares will be sold in the exchange. This is generally done through a due diligence process.

Once a company goes public, other companies and private individuals are able to buy its shares. Depending on the value they are sold for and the number of interested parties that are negotiated, this will determine its success. After first issuance, the company will continue to trade, and those who have acquired or received the primary stocks will have premium benefits.

Investing in IPO

Traders who invest in IPO enjoy the potential of seeing attractive returns or profits on their investments. However, before you start investing in an IPO as a trader, you must understand the process involved in it when it comes to trading securities. Trading securities in an IPO is not the same as ordinary stock trading. You must also be familiar with the

associated risks, including the rules connected to its investments. If you are looking forward to investing in an IPO, you must not be carried away by the excessive hype from a promising or growing company—some companies might bring in a lot of expectations and later underperform, so beware when investing in these. Still, they end up battling survival and consistency, with many leaving the business after a couple of years.

Most investors are familiar with the risks embedded in IPO investing. The best example of that risk was during the technology stock boom and bust of the late 1990s and early 2000s. The U.S. stock market during this period was highly speculative; certain investors and traders got outstanding returns on their IPO investments. At the same time, others were hit with huge losses after different technology stocks plunged.

Before diving into IPO investing, you must carry out detailed research and, at the same time, do your due diligence. However, doing this may not be as easy as expected due to the absence of readily available public information on a company looking forward to issuing stock for the first time. While this can

be difficult, it can also be easier when you refer to the preliminary prospectus of the issuing company, which is also referred to as a "red herring."

The issuer and underwriter provide the red herring. Usually, they contain the company's information, such as the management team, competitive landscape, target market, the current owner of the shares, the seller of the shares in the offering, the number of shares the company wants to issue, and the financials of the company.

A company can only decide to raise money through an IPO after it has carefully considered and analyzed this option with the hope that the exit strategy will cut down the returns of those who invest in it early and raise the capital for the business. Upon reaching an IPO decision, there may be chances that the prospects to grow in the future are high, while lots of the public will queue to have some shares in their portfolio for the first time. Usually, companies discount IPOs to ensure investors are attracted to them, especially when they bring more buyers from primary issuance.

Originally, underwriters set the price of the

IPO via their pre-marketing process after due diligence. At its core, the company's valuation using fundamental techniques determines the price of the IPO. Cash flow remains the most common method employed: This includes presenting the forecasted net value that the company has.

Potential investors and underwriters consider this value on a per-share basis. However, other methods for setting the price can include themes such as equity and enterprise value and other indicators that a company may provide during the study. While the underwriters play a major role in demand, they are also responsible for discounting the price to see success on the day of the IPO and the process for preparing and filing relevant documents with the authorities and the marketing and issuance of the stock.

Analyzing the fundamentals and techniques of an IPO issuance may not be easy. The prospectus should be the main source of information that investors access once the company files its S-1 Registration. Investors can access a wide range of useful information in it. They should focus on the management team and their commentary, including the

underwriters' quality and the deal's specifics. Big investments, such as banks that can help in facilitating a new issue, will offer their support to successful IPOs.

IPO investors must stay up to date with developing headlines in their trading journey, providing them with the best assessment and potential offering price. Large private accredited investors and institutional investors' demands are typically the pre-marketing processes heavily influencing the trading of IPO on the day it opens. This excludes public investors until the last offering day. Individual investors and every other investor can participate, but the former must have trading access. In any case, an easy way to access the IPO information is to have an account in a brokerage platform. The main reason is because companies are generally not shy of sharing information with these so that potential investors have access to most of the information they wish to have and attract their attention.

The IPO Process

There are two main parts to the IPO process: the pre-marketing phase and the IPO itself.

Let's take a look at what this process looks like in detail according to the structure provided by Fernando (2021).

Proposals and underwriter: The company will select underwriters based on their proposals and services, including their indications of what instruments to use, the established time frame, and a suggested price for the shares. The company will study these proposals and see which one fits best into their expectation, leading to the next step, which is the selection of the underwriter or underwriters through a formal agreement.

Team: Different professionals make up the IPO team. These members include certified public accountants (CPAs), lawyers, securities, underwriters, and Exchange Commission (SEC) experts (Fernando, 2021). These professionals will be responsible for all of the documentation pertaining to the IPO, which mainly consists of company information to file with the regulatory agencies and to support the issue. One of the things this documentation will be used for is to register an S-1 Registration Statement, the first of the many documents that will be required by the regulation agencies, that consists of a

prospectus and the information that so far was private. This information will be referred back to during the process. Finally, the expected date for the IPO will be determined, enabling the professionals to start with the marketing period.

Marketing and updates: As you have already seen, marketing will play an important part in the IPO process. Due to this, the next step will be creating material to attract the attention of potential investors. This will allow the underwriters to determine a price for the stock that will be issued according to the demand shown by the market. Sometimes, depending on the conditions that underwriters identify through the marketing phase, they will have them review their financial analysis and, in some cases, even alter the date or price of the IPO. During this process, the SEC requirements should be met, as well as those established by the exchange that will be conducting the trade.

Board and processes: If there still is none, a board of directors will next be established. It will also be important to provide reports and documentation that is able to be audited and reported to the market for every quarter.

Shares Issued: On the date of IPO, the company sells its shares and, depending on the company, there is a lot of news coverage and media attention. In this case, the shareholders get capital in cash from the primary issuance, and this is "recorded as the shareholders' equity on the balance sheet. Subsequently, the balance sheet share value becomes dependent on the company's stockholders' equity per share valuation comprehensively" (Fernando, 2021).

Post IPO: After the IPO is completed, trading will continue as normal, although some companies might wish to establish determined provisions that they will request from the underwriter. Among these measures may include some extra time for buying shares after the offering. Most of the time, however, a quiet period will be subsequent and the market will continue to trade as normal without many disruptions.

What Are the Advantages and Disadvantages of an IPO?

IPO has a major objective—raising capital for businesses, traders, or investors looking forward to making profits from investing in it.

Regardless of these advantages, they can also be exposed to some disadvantages.

Advantages

- Companies obtain access to the market to raise funds.
- It serves as a good and easy way of promoting acquisition deals, or to share conversion.
- It helps increase public awareness of the company, improving sales and profits.
- Obtain better terms for credit with financial institutions.
- IPOs can help in raising extra capital later through secondary offerings.
- With an IPO, a company can enjoy a lower cost of capital for both equity and capital.
- IPO not only attracts but also keeps better management and skilled employees through the participation of stock equity (e.g., ESOPs).

Disadvantages

- Expensive process.
- Ongoing costs such as legal, marketing, accounting and others to maintain company public unrelated to usual business costs.
- Distress from management because of price instability.
- The need to be completely transparent regarding their finances, accounting, taxes and

other information might require disclosure of privileged information such as industry methods and secrets.

Chapter 7:

Why the Mind Matters

Traders need to acquire productive and dynamic trading skills to efficiently monitor activities that impact the financial markets and attain success in trading. These skills may include evaluating a company's fundamentals and deducing the stock's trend direction. While these skills are integral to successful trading, none of them is as important as the trader's mindset. This comprises emotion, quick thinking, and discipline; all of these make up trading psychology.

Trading Psychology

When thinking about the psychology involved in trading, one must keep in mind that their mental state will be essential to determine the outcome of the trade. This means that your actions and behavior when entering the market and throughout the trading day will

determine how you act and will directly influence the decisions you make. This means these skills are as important as the technical tools you have learned about so far—they will determine the success of the trade.

When you think about trading psychology, there are two essential elements that will determine your behavior: your discipline and the risks you are willing to take. Scott (2022a) states that typically, trading psychology is associated with behavioral traits such as fear, greed, hope, and regret.

Diving Into Trading Psychology

When you want your trading business to succeed, you will need to understand the feelings that are associated with it. This means doing a deep dive into your emotions and trying to separate them from the rational aspect of the trade. When you identify the feelings that are taking over your actions, it will be easier to control them and to assess what you are doing wrong. In this section, we will take a look at some of the most common feelings a trader feels when they are in the action. The main reason to talk about them is so that they can be identified and controlled, enabling an enhancement in your performance.

Understanding Greed

Greed, in trading terms, can be defined as an excessive drive and desire for wealth (Scott, 2022a). This intense desire can often blur rationality and judgment and lead us to making decisions that are too risky or that put in danger the earnings we have made so far. It is believed that greed, emotion, or irrational behavior in trading can lead professionals to making several less than ideal decisions, such

as participating in high-risk trades or buying shares without the due research just because the market seems favorable. As you have also seen before, determining when to stop a trade and exit the market is essential to guarantee your profits. However, some traders might let greed take over, which will make them stay in the market with a determined instrument for more time than recommended just to try and obtain extra profits. This is a risky but common attitude, especially in the bullish markets. In these cases, some traders seem to want to obtain every last drop of profit and thus throw away any rational thinking or caution out the window for a few extra dollars.

Understanding Fear

Fear is another common feeling traders experience when dealing with the market. This is especially true if they start losing their profits and see a determined stock which they hold crash. When threatening information is given, some, in fear of losing everything, tend to sell their stock and retain the money, scared of market repercussions. Others go to the extreme of not wanting to invest ever again with the fear of what they may lose. However,

when they do this, they are not only avoiding loss but also refraining from making potential earnings. Therefore, it is safe to say that you cannot let fear dominate you when you decide to become a trader.

Fear is only natural to us—it helps us avoid and react to threat—and it will be present in several aspects of our lives. While it can be beneficial because it will hold you back from taking unmeasured risks, it can also present a negative side when it disables you from profiting from an advantageous market. Therefore, if there is one tip I can give you, it is to reflect and think about what exactly you are fearful of. Understanding the reasons for your fear will help you understand what is going on and you can work out in your mind the rationale. However, alerts Curtis (2020), you should carry this analysis before the bad news hits the market and not while the bearish phase is going on.

When you approach your fear in a rational manner, it will become easier and instinctive to understand how to anticipate events and learn the right reactions to put up when things go in unforeseen directions. While this may not be easy, it is important for the investor's

health, alongside their portfolios.

One of the best examples of how fear can dominate the trader is when they close out positions early due to the fear of losing huge. As I mentioned before, fear is a common and noticeable trait during bear markets, and strong emotions often cause traders to put up irrational behavior as they hurry to exit the market. Fear often evolves into shock, leading to a substantial selloff in the market from panic selling. Likewise, regret may instigate a trader to dive into a trade after missing out initially due to the stock's fast movement. This goes against the principles of the trading discipline and can often lead to losing securities and prices falling from peak highs directly.

As a trader, you must first figure out why and what makes you afraid. Think about these issues before you start trading to help you figure out the problems and find out how to solve them. However, you must avoid being tied down or prevented from making profits due to fear.

Trading Psychology: The Basics

For you to better understand the feelings that might overcome you throughout a trade, I have prepared a small introduction with some of the most common emotional reactions a trader can face during a day in the market. By using a list elaborated on by Snow (2019) with the most frequent emotions related to trade, I will guide you through understanding what can happen to a trader's mind and how you can overcome these feelings to have the best outcome possible in the trade.

Emotions

The first thing you need to know when trading is how to control and manage your emotions. This will be an essential point to ensure success. When trading, you need to let your rational side take over and leave aside feelings

such as nervousness, fear, excitement, impulsiveness, or overconfidence. Controlling these will be essential to keep your head clear for making decisions, especially if you are new to trading. Keeping your emotions in check will enable you to rationalize and obtain the best outcome for your trade.

Fear of Missing Out (FOMO)

The fear of missing out, also known as FOMO, is a regular feeling to have when you are in the trade market. This is true for situations both good and bad—you might feel the need to buy a determined stock when its numbers are high and everybody is investing, or sell your shares when everyone is doing so to ensure the least amount of loss. Whichever the case, you need to identify if you are feeling this fear or if it is the best decision to make at that moment. By “going with the flow,” you might be losing on opportunities that would otherwise be profitable if you just exercised patience. Therefore, it is important to resist the temptation and analyze the situation with clarity to determine what should be done. Remember there will always be another day and that you should be mindful of not investing money that you will need for other

things.

Trading Mistakes

Raise your hand if you have never made a mistake. I am almost certain that if you asked this question in a room full of traders, you would see no show of hands. Making mistakes is part of the business, especially if you are new to it. To avoid making them, it will be essential to study and stop before the whole situation turns into a snowball that you cannot control. Although it is something that cannot be avoided (we all make mistakes), you need to overcome the anguish that might take over if you fail at some point. The main thing here is to take some time and think over the situation. This might mean leaving the market for the day and reflecting upon what was done. According to Snow (2019), some of the most common mistakes traders make include "trading on numerous markets, inconsistent trading sizes, and overleveraging."

Greed

As you have already seen, greed is one of the most challenging obstacles that a trader can face. To overcome it, you will need to resort to logical thinking and reason. Here, it will be

essential to stick to your trading plan. This will guarantee that your plans for entering and exiting the trade are kept and that your emotions do not control your actions. I know this may sound difficult. After all, we are all in it to make profits. However, discipline will be essential here—leave the market and cash in once you have obtained your target value and reinvest only a portion in order not to risk all your earnings.

Hope

As mentioned, some investors often believe there is no difference between gambling and trading. This is because they hope to win all the time and should this not happen, they are dragged down. Achieving success in trading requires a strong trading psychology that does not depend on hope. If you keep hoping for changes to happen as soon as possible, your investment may be more at risk than ever imagined. Avoid letting hope keep you in a loss-making trade. Don't just be practical alone but ensure to book your losses at the right time. To be successful in trading and maintain it, be very hardworking to cultivate a better mindset with your trading psychology.

Regret

Traders may experience regret when trading, which may happen in two ways:

- A trader may experience regrets when he places an order that fails to work out.
- A trader may also regret not placing a trade that could have come out as expected.

Focusing your trading psychology on regrets may endanger your trades and lead you to place more bad orders. A simple way to overcome regretful trading is by accepting that all the market opportunities cannot be yours. The stock market also has a simple equation: You win some and lose some. By accepting this rule and fact, you will watch your trading psychology improve for good.

Rules

Establish rules. This is the most important aspect of the trade, since they will be useful when you are emotionally challenged during your day. Establish guidelines and stick to them so you know what to do when you reach a determined profit or loss. These will be your safety cushion when you feel your emotions are taking over. Establishing a tolerance for your losses or your gains by placing stop losses will help you. Think about the fact that there

will always be another day to continue and recover or earn more—establishing a daily threshold will be essential for the decision-making process.

Trading Psychology: Why It Is Important

Realizing losses and making mistakes are some of the nightmares that traders try to avoid. Unfortunately, these experiences are likely to happen at some point when you are trading—it is one of the consequences of taking risks. Even though you might have the fear of losing, and trust me, this is part of what a trader feels, you will need to overcome this emotion along with the others that may rise. The solution for this, you may ask? Treat trading as you would treat a business.

If you feel like your emotions might get the best from you, there is one way to solve the issue: Trust the data. When you rely on statistics, news, reports, and other relevant data, it enables you to make informed decisions that are not at all related to your emotions—you remain objective. If you are just starting in the market, you should start using this method and developing it as a good

habit. Newcomers might be caught up in the hype of making a good profit and forget to consult the data, but once you establish a technique, things will be easier for you. Furthermore, this should be done even before you start investing: Conduct the relevant research, understand the financial instruments, and read about the market. I can guarantee you that the effort will pay off.

Moreover, you should develop a healthy trading mindset; this is possible by creating a routine. Cutkovic (2021) suggests that "this routine can include a premeditated way of starting the day." This can mean reading the news while you have your breakfast, conducting some research on companies that are releasing an IPO, or studying the activities of the previous day. Doing this daily before you start your trade will help you get in the game and improve your performance. "Improving trading performance is based more on how you learn rather than what you learn. Therefore, this reinforces the need for a routine, as it is key to learning and understanding the proper way to trade," suggests Cutkovic (2021).

How Does Trading Psychology Affect the Trader?

Like I have said before, we all make mistakes when we start in the trading market. Well, even the most experienced traders have made them! That is completely normal! However, one of the most influential factors that lead us to making these mistakes is trusting our emotions, our "gut feeling," instead of the strategy we had planned. Making impulsive decisions based on what you think is going to happen rather than trusting the research is risky—sometimes too risky. Trading based on emotion or intuition, call it as you may, can lead you to losses, especially if you feel you are missing out on something. To keep from falling into this trap, knowing yourself and being able to identify your emotions is essential, as is sticking to your investment plan. When you have your objectives to guide you, things will be much easier and they will also feel safer.

To avoid making these beginner mistakes, Cutkovic (2021) suggests a list of four elements that you should always keep in mind while trading that involves risk management.

They are:

- Determine a stop-loss level to control your losses.
- Understand when to take a profit and pack up for the day with your earnings.
- Identify any potential trailing stop loss.
- Be aware of indicators that will help confirm stop loss and take profit levels.

What Can I Do to Avoid Emotional Trading?

As you might know by now, keeping your emotions away from the trading business is a must if you want to succeed. To enhance your chances of controlling them, I have made a list of some practices that will help you understand and manage them to avoid potential loss based on a suggestion from Cutkovic (2021). I want you to look at these and keep them in mind during the first times you are trading. Write a memo note and stick it to your computer screen if you must. Or maybe add them to the cover of your trading journal. They will help you keep your priorities straight and enable you to concentrate on what is most important when your emotions start to crawl out.

Establish a Solid Trading Plan

What is your trading plan? Have you determined one? Remember that for good management, you will need to define one before you start trading, including what kind of analysis you will perform to study the stocks. It is also essential to determine your rules, limits, management approach, and the advantages and disadvantages of each of the instruments you will invest in. Setting a strategy and sticking to it will give you larger chances of succeeding and making good profits from your trading day.

Furthermore, remember to keep some space in your strategy for your trading journal. This will be an important document to review your trade and to write down your observations regarding the market. The trading journal will also be essential for you to determine what you did incorrectly and when, as well as what went well and why. Additionally, it will enable you to go back and analyze if the decision you made was based on emotion or reason and how that affected your results for that day.

Understand the Risks You Are Willing to

Take

I know, the first days of trading can be really exciting. However, jumping to conclusions and risking more than you can afford based on a trend that calls to your intuition is a big risk that can be transformed into a huge mistake. It is common knowledge that when the adrenaline of taking a big risk sets in, you might feel the urge to do something about it. I recommend you don't and that you remain calm and observe. After all, the trade is not over until you cash in your shares.

If you have just recently started in the market and are still unsure of taking risks, my recommendation to you is: don't. Wait, observe, learn, and study before you do. You might end up reaching the conclusion that you are somewhat averse to risk and, therefore, a more conservative approach will suit you. However, if, after you have felt the environment and had a few days trading cautiously, you feel that you are comfortable taking larger risks, that is also not a problem! If you are sure about your decision, I encourage you to keep on, always keeping in mind the end results that you might have.

Pause. Breathe. Think.

The truth about trading is that you will often feel stressed, exhausted, and sometimes demotivated. Trading is not easy, and it sometimes can get the best of us. When we don't feel at the top of our game, it can lead us to making more mistakes and even engaging in risky trading activities. Not every day will be easy, but that is when your rules need to come into play. If you reach a certain number or quantity of losses, it might be a good idea to stop for a while. Taking a break will allow you to reorganize and gather your thoughts. It will also enable you to look over what you did wrong and how to do better next time.

This includes when factors outside of the business are bothering you. Problems at home or other situations we deal with in our lives that generate discomfort might make you feel stressed and unable to think correctly. In this case, you might want to consider rethinking entering the market at that moment and maybe leave it for some other time. You will be able to come back the next day—the trading market is always there. Never forget that, when needed, you should pause, take a deep breath, and reorganize yourself.

How Can I Improve My Trading Psychology?

Formulating and sticking to one's trading mentality is directly proportional to success in trading, as it helps you remain unshakable in an active market environment. Realistic judgment will thrive when you deeply understand the predicaments and unfortunate circumstances that may arise. Doing this is difficult, as traders often make highly subjective inferences. Looking at data and utilizing the right tools is always beneficial.

There are several tools available to help optimize future trading opportunities, helping traders make better decisions. In addition, traders, especially beginners, should check out different educational trading resources to help them better understand how trading works and to formulate a healthy trading mindset.

Get Yourself in the Right Mindset

One of the top ways to improve your trading psychology is by getting yourself in the right mindset. Before trading on any given day, you must remind yourself that the market's inconsistency is inevitable. Always prepare yourself that there will always be a good day,

and you will also have a bad day. Keep in mind that both of these situations come and go, no good or bad day will last forever, so just relax and know when you might benefit more from leaving the market. Another effective strategy to maximize your trading psychology is to allocate more time to yourself.

Note that you may not make a profit on your first time or the first day of trading. As such, you must give time and effort to create a rock-solid trading strategy free of market sentiments. Although you can't trade with emotions, your objective is to reduce the number of emotions that may control your trading psychology.

Have a Great Knowledge Base

Another way to improve your trading psychology is by working to improve your trading skills as well as knowledge. When you improve on these two traits, you become familiar with the stock market, which is key to overcoming negative psychological trading. Don't forget: Just as the common saying goes, knowledge is power!

Remind Yourself That You Are Trading in

Real Money

As a trader, it isn't always difficult to remember that the numbers on the screen stand for real money. While there is nothing bad about risking your money to trade with the expectation of making profits, you should also not forget to be wary of how you risk it. Don't forget that you must be cautious and smart when it comes to decision-making.

Examine the Trading Habits of Successful Traders

The stock market is a unique place, and as a result, traders do not always have the same strategies. You should always find out and know what your peer traders are doing in trading. Knowing this does not mean you should copy them, but rather that you should learn from them. Always look at the behaviors of successful traders. When you carefully examine their traits and emulate the positive ones of their strategies to succeed in their trading, this will help you improve your own trading strategies.

Practice! Practice! Practice!

To further improve your psychological trading, you must not refrain from practicing

your trading skills repeatedly. This will help you reliably attain mental strength. Consistent practice of your trading skills will facilitate your trading psychology over time as you continue to execute the skills you have learned. With this, you can prepare your mind for the good or bad outcome of any trading activity.

Risk and Account Management

While you are concerned with learning how to make profits in trading, you should also strive to learn the best way to manage the risks associated with it. As a trader, you must have a specific risk-reward ratio: a metric used by traders in evaluating the amount they are risking for how large their expected reward is in the market. Typically, most traders prefer a ratio of 1:3, 1:2, or anything along those lines. Only when you have mastered risk management can you successfully manage your trading accounts.

Managing risk and reward requires you to identify, analyze, accept, and mitigate unpredictable trading decisions (Kenton, 2021). Financial risks are common with

trading; hence, you must learn how to manage them for successful trading. Expert traders usually integrate management techniques to help them deal with the currency market's inherent volatility, handle skepticism, and cut down market exposure when carrying open positions.

Risk Management in Trading

Risk management in trading refers to the process whereby a trader identifies, evaluates, and mitigates the risks of not making profits from trading or investment (*Risk Management*

Strategies, n.d.). In the market, we experience loss when the market we have invested in does not move in the direction we expected it to—or if we have been misled by our feelings and leaped to take the risk because of a trend we thought we identified. We can be influenced by both internal and external factors in the market, and these will have a direct impact on how we decide to trade.

Every trader concerned about cutting down the risks associated with trading will apply risk management techniques, helping them cut down the losses. This is especially true if the market tide turns against their trading expectations after a specific trading event. While all traders are tempted to realize every possible trading opportunity, they must also ensure to know and figure out an investment risk in advance to be certain they can bear the losses should things not go according to plan. Every successful trader is familiar with this fact and knows the trading process isn't easy. An extensive forex trading risk management strategy and tracing a plan can help achieve a sustainable income.

Risk refers to the probability of the actual return on investment (ROI) changing course

from the return expected by traders (*Risk Management Strategies, n.d.)*. This will take place during the market trade and can vary both in size and direction: The deviation can be positive, leading the trader to earn profits, or it can be negative, generating losses. This movement in the market that leads to difference in prices is called volatility. It can be affected by several different factors, and they are generally speedy and intense. Most traders establish a risk management strategy in order to protect themselves from these variations.

A trader's monetary capacity and psychological strength to tolerate high volatility will specify their risk tolerance. Therefore, the more a trader's risk tolerance, the higher their potential return will be. However, before a trader can better understand risk tolerance and plan his trading accordingly, there is a need to come up with a risk management plan. Risk management involves different important processes. A trader must identify, evaluate, and mitigate risk (*Risk Management Strategies, n.d.)*. This will help you as a trader to figure out the underlying risks associated with a specific

market before you enter. When you evaluate the risk and the profits, you can then decide whether it is worth trading or not. Finally, you will understand how to effectively mitigate the associated risk when you make your evaluations.

Identifying Risks

Before a trader can identify financial risks, they need to be familiar with the different variables in play, including macro and micro economic factors that can influence the market. These factors may largely have a market-wide effect on industries, regardless of their structure or size. All these elements will play a part in the investor's trade, significantly impacting the trends that they see in the market in the short or medium terms.

One of these elements that are especially important are the quarterly earnings reports. While there are limits to the range of impacts, they can be responsible for huge movements in the target assets—however, not all of the information they contain may be important to you as a trader. Due to this, on your trading plan, you must figure out the effects of economic events on your portfolio. After this, you should observe the features of power terms to fluctuate prices, the published frequency, and other influencing factors of these numbers in these reports.

A useful tool here is to establish an

information filter to monitor, since it will help in getting rid of the “noise” while concentrating on the most important news. You should describe each report's scenario to determine if it will bring benefits or negatively affect your trading and investments. When you don't find it difficult to differentiate between a risky scenario from one with no risk, it will help you select the most important and related signals in the markets. Moreover, it will help prepare you for any problems your portfolio may be exposed to.

> Overall, there are two types of risks in finance: systematic risk and systemic risk. Systematic risk is the risk inherent in a particular financial asset or even an entire market or industry. This inherent risk is external and beyond the control of any individual or entity. Systematic risk is non-diversifiable, and all financial investments are subject to it. This means that having a diversified portfolio does not mitigate or eliminate systematic risk. Systematic risk includes market risk, interest rate risk, inflation risk, and exchange rate risk. (Risk Management Strategies, n.d.)

When a certain stock is influenced by a change of interest rate without prior announcement or knowledge, the trader is exposed to what is called an interest rate risk. When this happens, it virtually affects all types of financial assets. At the same time, they are specifically more impactful regarding fixed-income securities such as bonds. “Bonds typically have an inverse relationship with interest rates (Risk Management Strategies, n.d.) While diminishing value is common with higher interest rates, bond values appreciate with lower rates.

Traders can also be exposed to inflation risk, which happens when inflation goes up or down in a country’s economies. “Inflation is the general rise of prices of products in the market. Inflation affects the purchasing power of consumers. Inflation risk is an influential source of risk for investors in the fixed income market (Risk Management Strategies, n.d.). Inflation affects the buying power the trader has, as it does with several other products that are sold. Although the trader’s ability to buy more or less will depend on the inflation, when it is higher, it also influences the market because it decreases how attractive the profits

are for certain instruments.

We then have market risk. This is generally applied when one trader decides to follow the decision of other traders, is followed by another, and then another. This means that the professionals are copying what the others are doing and, thus, saturating the market and making prices decrease. Because of the common characteristics of the market, this kind of risk is the most common, since traders experience the fear of missing out (FOMO) and run to invest where they see people are making a profit.

Last but not least, we have the exchange risks. This happens when a specific company is exposed to changes in the market. In a globalized economy, there are different ways that this kind of risk influences companies. These are generally restricted to those that operate in foreign markets and need to deal with different currencies; for example, that can be applied to multinational organizations and those who work cross-border. Overall, risks pose devastating effects, and the truth is that, while mitigating risks can be a daunting task, traders should do their best to mitigate it using proper and important techniques,

including having a system of quick reporting on weak spots.

Risks Associated With Trading

According to Kilian (n.d.), there are other risks associated with the trading market that a trader needs to keep their eyes on. According to the author, this includes the following:

- **Currency Risk:** This risk is connected to currency price instability, which makes it costly to buy foreign assets.
- **Interest Rate Risk:** This is an abrupt interest rise or fall affecting volatility. The fluctuation affects the FX prices due to the level of spending and investment across an economy which will rise or decline as influenced by the change in rate direction.
- **Liquidity Risk:** With this risk, you cannot buy or sell an asset quickly enough for loss prevention.
- **Leverage Risk:** This is a magnified loss risk when trading on margin. The original fee is smaller than the trade's value, so it is easy to forget how much capital you are risking. (Killian, n.d.)

Managing Trading Risks

As a new or experienced trader, you will encounter situations that may necessitate taking risks to accumulate profit. However, learning to manage risks is important in ensuring that you are not knocked off the market. The following are ways to manage risks in trading.

Using Stops and Limits

Because of the volatility of the market, one of the essential things a trader should have are entry and exit points. Some of the motions available, according to Killina (n.d.) are:

- **Normal Stops:** Automatically close your position should the market not move in your favor.
- **Guaranteed Stops:** This closes your trade at a specific price you set.
- **Trailing Stops:** This follows the positive movement of price, closing your position even if the market does not move in your favor.
- **Limit Orders:** This follows your profit target; once you reach the intended value, you leave the market to avoid potential reversals in tendency.

Managing Your Emotions

As I mentioned earlier, you should learn to manage your emotions to successfully manage risks and rewards. This is because volatile markets can cause havoc on your emotions. As stated earlier, emotions such as greed and temptation can affect your judgment, and therefore, it is essential to ensure that

emotions do not crawl their way into the decision-making stage.

Understanding the Forex Market

You must first understand the market to cut down and manage the risk associated with trading. You do not want to venture into an investment you have little or no idea about only to experience losses. Currencies from all parts of the world make up the market. Supply and demand forces usually drive trading, also known as Forex: Foreign Exchange, or FX.

It might seem obvious, but currency is a must when trading. However, when you do so, you will determine the specific type of currency you want to use, and this is called the base currency. You can also choose to use a quote currency, which is the price that will be shown in the chart—here the general rule is that you need to spend the value in quote currency to buy units of base currency. "For instance, if the GBP/USD 1.25000 is the currency exchange rate, you will need to spend $1.25 to buy £1" (Killian, n.d.).

In addition to knowing this, it is essential that the trader understands that they can trade in three different types of market. They are:

- **Spot Market:** In this market, a currency pair exchange occurs at the price spot.
- **Forward Market:** Here, traders contract to buy or sell a specific currency amount at a stipulated price on a specified date. In this case, the contract is not legally binding for the trader.
- **Futures Market:** The trader agrees to buy or sell a set amount of a currency at a set price and date in the future with a legally binding contract.

Only Trade Money You Don't Need

The golden rule in trading is to only risk the money you can afford to lose (Forex Risk Management Strategies, n.d.). Some traders tend to ignore this rule and have the illusion that they are immune to loss. For example, you wouldn't stake all your money on a specific outcome if trading were like casino gambling, would you? Then why would you risk money that you need for your daily necessities? Doing this is not a very good idea, especially if you are just starting out and still need to learn the market's secrets and tricks.

You might be thinking here that I am a pessimist and that there is no reason to think

this way. But why should you? Well, for the simple reason that you are risking losing all your capital on the first few times you invest. Furthermore, remember how I mentioned leaving your emotions aside? What will be your mental state if you are dealing with money that you will need to pay bills, food, or any other essential item? You most certainly will become nervous, with reason. However, this will break the essential rule of not trading with your emotions, thus affecting your decision-making and increasing the chances of making mistakes and losing even more. If the only money you have available right now is money you will need, maybe you should leave investing for another moment.

Setting a Risk-Reward Ratio

Typically, you should be enthusiastic about your profit outweighing your losses, setting a risk-reward in your trading plan to quantify the worth of the trade. You can find the ratio by comparing the amount you want to earn on a trade to the potential profit. “For example, if the maximum potential loss (risk) on a trade is £200 and the maximum potential gain is £600, the risk-reward ratio is 1:3. So, if you placed

10 trades using this ratio and were successful on just three of them, you would have made £400, despite only being right 30% of the time" (Killian, n.d.).

Starting to Practice With a Demo Account

There is nothing like practice to make perfect. This can be said about the trading market. To make this easier for beginners, you will find several platforms that enable you to practice investing before jumping into the real deal. These demo accounts simulate the real trading world with concrete examples and allow you to see what you are doing right and wrong throughout the trade. When using a demo fund, you won't need any real money; it will all be fake, and you will be able to adjust your technique and your trading plan to earn confidence and really start in the market.

Building a Good Trading Plan

As discussed earlier, a trading plan is important to achieve the best trading result. It helps in making your trading easier and helping you to remain disciplined. With a detailed trading plan, you can find answers to trading questions such as what, when, why, and how much to trade (Killian, n.d.).

As you have seen, it is no use to copy another trader’s journal, they need to be personal and make sense to you as an investor. Copying other traders' plans into yours can be harmful since you will likely not have the same perspectives, time, available funds, and decisions in the same situations and, therefore, it would prove to be useless as they would produce different outcomes. You can equally leverage a trading diary—another important tool to help you keep a record of things as they unfold while you trade, starting from your entry to exit points all the way to your emotional state at the time.

Keeping an Eye on News and Events

It can sometimes be hard to forecast the price movements of currencies because many factors could be responsible for market fluctuation. To avoid being caught off guard, always concentrate more on the central bank's decisions, announcements, political news, and market sentiments (Killian, n.d.).

Chapter 8:

Five Trading Habits to Develop

Although the only initial requirement for trading is the possession of a substantial amount to begin your trade, you must develop certain trading habits that will guide you while trading and give you an edge in the markets. Developing these habits will help in tilting the odds in your favor. You should be concerned about reviewing previous price actions for newbies in trading. If you know where the price has been, you can effectively predict the price's direction and become acquainted with the current market themes.

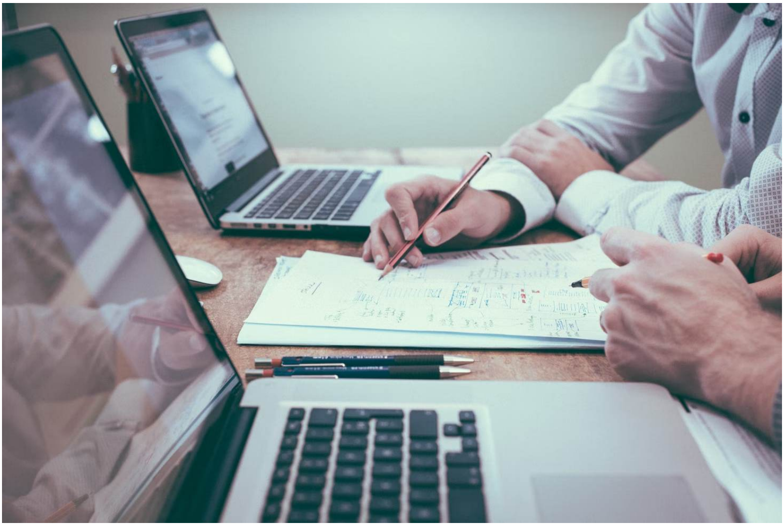
Have you ever seen an athlete swimmer who won an Olympic medal by just leaving his bed and dressing up to dive into the pool? Certainly not. Any Olympic winner must have

undergone rigorous training, including developing certain traits that would keep them going when the tournament starts. Talk about warm-ups, shape study, and other activities; a swimmer develops these habits before the starting pistol is fired into the air. You may wonder how this relates to trading, but the reality is that this is what traders do exactly—they develop certain habits before entering the market.

The trading market is massive; millions of traders continue to join other millions of existing traders to kickstart their careers. Despite the vast opportunities in the market, it is unfortunate that most traders are unsuccessful and end up losing their capital to the market. Some traders even end up going bankrupt after huge losses.

Most traders devote an ample number of hours each day to observing charts, reading different publications on trading, or studying trade-related courses in hopes that these measures will sharpen their skills and help them succeed. While these methods are sure means to maintain a successful trading career, without certain essential trading habits, their skills are incomplete and, generally,

ineffective. Adequate preparation births profitable trading. Thus, while acquainting yourself with the necessary trading skills, keep in mind that you must develop and maintain efficient trading habits.



Discipline Is Key

A golden rule for every successful trading career is that traders must be disciplined and have self-control. You, as a trader, must observe and learn the major rules of trading and be disciplined; these will guide you on the right time to trade, exit a trade, prevent losses, profit booking targets, protect your capital, and lots more. Traders who remain disciplined will always be ahead in the markets, as those traders abide by the core factors for success in trading. Most aspects of successful trading, such as the preservation of capital, will be easily carried out by such traders. Being prudent and wise with your capital guarantees profits.

Self-discipline helps you to maintain certain standings, and no matter how the market goes, whether in your favor or against you, discipline helps you to remain focused and not go beyond your plan throughout the trading session.

Disciplined traders are not in any way under pressure, nor do they take crucial actions with their emotions. They are not overwhelmed by

the spur of the moment. Moreover, a disciplined trader is very sure of their trading system and follows it religiously even when the price action isn't going in their favor.

While you may be tempted to act as you will, you must always know that it is an integral part of success in trading. Sometimes, exercising discipline may require you to exit unfavorable trades even when a part of you clamors for an in-the-trade against your better judgment. Additionally, discipline in trading also demands that you have a certain level of emotional indifference or detachment to certain things. Instead, you should rely on your rational side and what you perceive to be the correct thing, not what you want.

First, discipline requires you to develop a trading plan. This plan may be developed for short-term or long-term use, closing your position, or placing stops and limits. More importantly, you should avoid altering your positions without carefully considering your predictions. You must be disciplined enough not to deviate from your trading plan, regardless of what other traders may make from their trade. Remember, you must keep up with the rules you have set in your plan,

which is the major trading principle.

You may even experience greater losses when you employ other traders' plans to trade. Moreover, learn how to manage risks, which will be very effective in stopping losses, profit booking targets, and protecting your capital and profits. No matter the articles you read or seminars you attend, you should know that none of these will teach you discipline. Some traders often believe spending thousands of dollars on their trades is the best way to compensate for indiscipline or lack of self-control. Still, that gap can only be filled by making intentional decisions to work on attaining discipline.

Remember this as you go and write it down if you must: Discipline is a key factor for success. It helps you remain on course, even at points where your trade staggers. Long-term commitment, discipline, and hard work are the keys to a profitable trade.

Focus on the Odds

Lots of skepticism surrounds the world of trading, and as such, most people equate trading to gambling. However, this is deeply

untrue. A good trader should always be concerned with trading on the odds she can control and taking manageable risks. Gambling may only equate to punting inappropriately or poorly forecasting the market and making wrong moves. The latter will most often result in huge losses. As a trader, you must familiarize yourself with the market to help you understand the events that play out daily.

While you are enthusiastic about making as much profit as possible, remain focused on the odds whenever you are trading. Do not become downcast whenever you have a losing trade, as this will be part of your experience. Use this opportunity to learn, write it down in your journal, and review your actions so that the same mistake does not happen again in the future. When you accept that both winnings and losses are part of the trading business, you can avoid becoming depressed whenever the odds do not tilt in your favor.

Another effective way of focusing on the odds is by setting realistic goals. This helps you essentially keep your trading goals in perspective. With this, you can easily earn a reasonable return within a reasonable time

frame. It is good to be optimistic and aim higher when trading, but if you expect to be a multi-millionaire the following day, you may move closer to failure than ever imagined. Pessimistic people cannot succeed in trading. However, you must ensure to keep your expectations grounded and realistic. There are days you may attain a 10% gain; similarly, you will lose the same percentage on some days. Therefore, you must be prepared to adjust to the outcome of your trade each day.

Treat Trading Like a Business

Many starters often consider trading to be a side hustle. This perception may be detrimental to their trade, as it often dictates the importance they give to trading. Most successful and professional traders do not take trading as a mere activity to pass the time or make some money. They take trading as a business that could fetch them massive income in the long haul; therefore, they devise a trading plan to spell out the objectives and goals of their trade and how to achieve them. To become a successful trader, you must incorporate a healthy business plan into your

trading goals, or what may be referred to as a trading plan (Clive, 2022).

There is a need to formulate a roadmap that aligns with your goals. Ask yourself what you wish to do with the profits you make from your trading sessions. Do you want to retire as a result of trading? What kind of returns do you need to reach your objective? These are some of the questions you need to ask yourself first before you enter the trading business. While you include all these in your business plan, understand that there will always be highs and lows in trading. Both the good and bad events should motivate you to do better.

You may consider structuring your business plan with something like this, as suggested by Clive (2022):

- **Among all the options, what are the kinds of markets I will act in?** This question helps traders focus on a few markets and avoid broadening their scope too wide, leading to a loss of control. Search some of the top indexes in the market to make your decision.
- **What is a realistic expectation to have?** You can certainly be ahead of inflation with 10% yearly, which is quite conservative.

- **How much should I risk per trade?** While there is no specific amount you can risk on any trade you intend to venture into, it is usually recommended not to go beyond 5% to 10%.
- **How much should I risk in total?** Typically, this takes place when you have different trades open. However, Clive (2022) suggests you should consider keeping the risk of your total capital between 15% to 20%.
- **How do I establish and identify when to enter and exit the market?** Identifying the entry and exit criteria may often depend on how you have learned to analyze the market. This is strategy-related, and you need to learn trade analysis. Get familiar with the system that works best for you. Also, avoid treating this like gambling. Always ensure to stick to your entry and exit criteria.
- **How much time do I need to devote to trading?** There is no specific "right" amount of time to dedicate to studying and trading the market. However, you should always take note of your rate of improvement and whether you are improving. Learn how to avoid mistakes as you improve. The more you improve, the less time you may need to study. You should give

some time daily but avoid letting trading consume your daily calendar. While you trade, ensure to have a plan to fall back on.

To become a successful trader, avoid seeing trading as a hobby or leisure activity. Handle trading as a full-time business or a part-time business. Just as other businesses incur expenses, losses, taxes, and risk, trading also involves those things. As a business owner, you will be required to thoroughly research and strategize when maximizing the potential of your business and profits.

Go at Your Own Pace

Every new trader has one common goal—to make profits from the market as quickly as possible. While this may not be a bad idea, they make the common mistake of relying solely on what they hear from analysts or what they read on different websites and publications. They pick different trading ideas and combine them with a few learned strategies. No analysis is correct all the time; therefore, you must always consider going at your pace.

First, begin by making a personal analysis and

implementing ideas based on what you have learned and seen. Consider sharing ideas and deliberating on the things you have learned from losses. Don't forget that others have planned their trades according to what works for them. However, you should also avoid trading with other traders' plans. When you leverage personal ideas, you stand better chances of not only avoiding mistakes but also identifying trading opportunities.

As you begin trading, do not get sucked into all of the glam and glitz populated by so-called expert traders. You need to learn to pace yourself and understand that the success of these expert traders is obtained from years of experience, mistakes, practice, and study. You need to do your due diligence first and grow within the industry.

Practice Makes Perfect

No professional trader attained that status by following what was learned from one practice session. Because practice makes perfect, you don't just dive into the market and start making money. You need to learn basic things before you start studying the market. Moreover, learning these things isn't as important as being consistent.

There are various strategies involved in trading on the market. Most new traders have trouble implementing a strategy that seems easy on the surface. However, consistent practice over time makes implementation less

of a hassle.

Remember that there are slight differences in every pullback and in every single day. Therefore, you must be informed that things will differ from what you have read in your textbook examples or trading courses. To be an expert in implementing any trading strategy, you must repeatedly practice to reinforce understanding. Thankfully, you can practice trading using demo accounts as provided by many trading platforms. Once you begin practicing using a demo account, you shouldn't stop until you make a profit from it.

Even in the game of sports, players need to consistently practice certain skills before becoming an expert. They do drills to create muscle memory, allowing them to act instinctively at crucial moments (Mitchel, 2022). This equally applies to fast-paced market conditions. Sufficient practice of trading strategies makes implementation easy. Furthermore, you may miss out on opportunities requiring those skills without enough practice. Practice helps you avoid mistakes and effectively spot potential mistakes that could harm your trade.

Conclusion

There are many diverse kinds of stocks available to the investor, including common, preferred, and growth stocks. Regardless of your choice, all these options can provide massive benefits when you trade them. Some benefits include safety against inflation, making gains or profits, liquidity (or ease of conversion), transparency, investment flexibility, and much more. While these benefits accompany the various stock options, one must understand how their markets work before investing in them.

As a potential trader, endeavor to make adequate preparations before entering the market. Failing to prepare may incur regrettable losses and discourage you from going further with trading. Today, millions of traders lament their failure to succeed in trading and blame the market for its volatility; however, in many cases, traders venture into trading unprepared. Understanding the basics of trading is crucial, as is carefully

investigating every trade you plan on entering before depositing money. Assess your financial status and ascertain whether you will remain in the market if the trade is unfavorable and costs you your investment.

Taking part in investment implies that you are getting involved in a transaction. If you learn the rudiments of trading perfectly, you stand a better chance of achieving success as quickly as possible. After you have learned the basics and set funds aside to begin your trade journey, you have to understand that it isn't just a month's or a year's journey.

As a trader who often takes risks, ensure you have substantial funds to fall back on if you intend to trade for the long term. Not every risk will be profitable; therefore, endeavor to set aside funds to help you make more investments. Doing this can be overwhelming, but you must realize that insufficient funds can give you a disadvantage in trading. Always trade using an amount you can afford to lose when taking risks. The market may not be for you if you cannot let go of the funds you intend to trade. Ensure you plan your trade accordingly before you enter and know when to enter and exit. Also, avoid trading

using other traders' plans, as they may not work for you and may incur losses to your trade.

Build a perfect plan and remember to reassess your skills from time to time. Make sure you are mentally fit to trade and avoid trading with your emotions. Also, you must set a realistic risk level and have a specific amount you are willing to risk on any trade. While you do this, you must also set goals and do your research properly. As you prepare for trades, don't forget the exit rules, whether at a specific gain or loss. Keeping records of observations and analyzing them later will make you a better trader.

The right strategy will boost any trade and help the trader survive the market hurdles. A trading strategy helps you identify certain price levels in the market. This gives traders adequate clues about the activities on the market before they begin. A trader should be familiar with trading tools like VWAP (an analysis of intraday charts that begins fresh at the start of each round of trading) and MA (indicates stocks and smooths out price data). The momentum oscillators also help traders measure the change in security price amount

over a specific time.

As a trader, there are lots of instruments in the market you can trade with. You may pick your choice of instrument following market analysis or other means. The most popular instruments are stocks, ETFs, Growth Stocks, and IPO. Whatever instrument you pick, ensure you know how it works. While some of these instruments pay dividends in return to investors or traders, some may not work this way; instead, the holder company will reinvest it for you. For stocks, you must consider investing in a company with healthy dividends because you may get lower dividends than expected if there is a business shortage.

Successful trading begins with a sound and healthy mind; a mind devoid of worries and negative thoughts. Emotional traders fail in the market, whether in the long term or short term. Fortunately, you can avoid emotional trading, including unnecessary risks, by having a strong, solid trading plan, understanding your risk appetite, and knowing when to take a break.

Risk management is another important aspect to take note of. You can manage risks using

stop limits, emotional management, learning about the market, and trading with money you can afford to lose. Moreover, setting a risk-reward ratio is a great way to manage risks. My suggestion is to always start with a demo account on any trading platform you are using. Refer to your trading plan when things go wrong. Lastly, you can learn about the trends in the market by staying updated on news and events.

For a trader who hopes to be successful in trading activities, the reality is that risk is inherent in trading. However, you will benefit if you learn how to measure and manage it to avoid massive losses. You should not undermine that risk can magnify when you use too much leverage for your trading capital. Moreover, risks can magnify because of a lack of liquidity in the market. When you are disciplined and approach risk-taking with good trading habits, you can be certain to generate good profits.

Presiding over your profits and losses will not be difficult if you have an appropriate and effective risk management strategy. It will be wise to consistently work hard to become a successful trader.

Developing certain trading habits can help you avert losses or cut them down. As a trader, you should be disciplined and control your emotions. Discipline is the key to success for every trader. Do not be swayed by the skepticism of the market. Always focus on the odds as you have included them in your trading plan. As I have continuously stated throughout this book, to succeed in trading, you must think about it as a business and treat it as such. This will help you stay committed to the goal. Ensure to continuously practice strategies you intend to implement and watch your trade yield profit consistently.

Take Action

Congratulations on coming this far! It takes a

great deal of commitment and determination to start and finish with anything. Now that you have learned it all and have grasped what investing entails, it is time for you to practice all you have learned. The truth is, investing requires consistent learning. There is so much to know, many new skills to acquire, and many modifications coming into investment. This means you must be on your feet and continually fill up on the latest information. As detailed as I have tried to be in this book, there is so much more information you will learn from real-life experience.

So, start now, go beyond this book, read more books and articles, watch videos, and listen to podcasts. Take the time to explore all the authority sites on investments. All those important points you noted down when reading this book, research them and gain more knowledge. Before investing or trading, use demo accounts to get a feel and understand how the market works. Explore as many options as you can find. When you submerge yourself in everything, you will be able to identify what path you want to take and what strategies and systems you want to build and follow.

Above anything else, take it slow. There is so much information out there, and it can be overwhelming. Sometimes you need to take it slow; time will open you up to new things. The best thing is to focus on what's on the ground, what information you have, and the available ways to use it. Never be afraid to ask questions, and never be afraid to try, but be sure you don't commit everything you have to a single trial. There will be losses, but there will also be wins, so prepare for everything. There is so much more I want to say, but I'll trust that everything has already been said, and everything in this book is a great start for you.

If you enjoyed this book and got a lot of value from it, be sure to leave a review so others may be able to find it and gain as many benefits as you have. Also, pass along this book to anyone you may think needs it to enter into the stock trading world. With that said, good luck, and enjoy the process.

Glossary

ABC Patterns: A stop run of the first pullback after a forceful move to the upside, indicating further potential in a larger direction.

ABCD Patterns: An acronym that explains through a geometric figure the time, price, and shape trends in the market.

Brokerage: A company that brings the seller and buyers together for transaction facilitation.

Buy-and-Hold: An investor buys and holds security for a long time regardless of market fluctuations.

Candles: Used by traders to figure out the likely price movement depending on preceding patterns.

Chart Patterns: This is a price chart shape that helps traders forecast the next price action depending on their past actions.

Chart Stop: This is the point set by a trader where he enters or leaves the trade.

Demo Account: An account that allows traders to trade using paper trading. However, traders test those trades under real and live market conditions.

Diversification: Spreading investments to avoid limited exposure to a specific asset, helping to reduce volatility.

EMA: Exponential Moving Average. It measures directional trends for a certain period, like the moving average.

Entry Point: A price that a trader sets to enter a position.

Equity: This value goes back to the company's shareholders should all the assets liquidate and pay off all its debts.

ETF: Exchange-traded fund is a collection of different investments, including stocks or bonds.

Exit Point: A price that a trader sets to close a position.

Falling Wedge: When a security has a decrease in price over a certain period of time.

Fibonacci: The level that brings any two points together that the trader views as

unimportant, generally a high and a low point.

Flag Pattern: When the investor sees the trends of the market in a similar image as a flag with a pole representing a countertrend after a short-lived trend in a determined period of time.

Flagpole: An explosive, strong movement of the price that forms almost a vertical line.

FOMO (Fear of Missing Out): This is the fear of missing out on profit when trading and investing impulsively without thought.

Forex: “A marketplace where global currencies are exchanged” (Chen, 2022).

Growth Stock: “Any company’s share with the analysis for growth” (Hayes, 2019a).

Intraday: Intraday is shorthand for securities that trade on the markets during normal business hours and their movement of prices (Segal, 2022).

IPO: The first shares sold by a private company to the public.

Leverage: A strategy for investing with the use of borrowed capital.

Liquidity: This refers to how quickly or easily

a trader or an investor can buy or sell a security in a secondary market.

On-Balance Volume: This measures the pressure of buying and selling as a cumulative indicator that increases the up-day's volume and reduces the down-day's volume.

Pattern: This is a unique formation that the price security chart movement creates.

Pivot: The peak low price of a stock in either the current or reverse direction.

Portfolio: This refers to the collection of a wide range of investments. This may include bonds, stocks, and other related investments.

Price-to-Earnings Ratio: A stock's share price ratio to its earnings per share (EPS) (Murphy, 2022).

Pullback: A pause or reasonable fall in a stock pricing chart from a recent peak occurring within a non-stop trend.

Risk: A potential financial loss or uncertain decision made by an investor or a trader to make more profit.

Risk/Reward Ratio: Compares the likelihood of loss when compared to the earnings a trader

will make with a specific stock.

Rising Wedge: A rise in the price of a security over time.

Security: This is a financial instrument responsible for holding the value. However, two parties can trade it.

Snap Decisions: A quick trading decision by traders.

Stock: Also known as equity, it is security that stands as the ownership of a certain portion of the issuing corporation.

Stop Loss: An order placed with a broker for buying and selling a specific stock upon the stock price getting to a specific price (Investopedia Team, 2022).

Symmetrical: This happens when the security price consolidates in a manner that brings two converging trend lines with look-alike slopes.

Take Profits: A limit order specifying the specific price of claiming a position for a profit.

Trending Lines: A line drawn over pivot highs or under pivot to reveal the prevailing price direction.

Volatility: The statistical ratio of returns distribution for a specific security.

Volatility Stop: Takes ATR multiples, adds or removes it from the close, placing the stop at this price.

Wedge Pattern: A price pattern on a price chart highlighted with converging trend lines Scott, 2022b).

Zig-Zag Indicator: A trading tool that lowers price instability impact. A way to figure out price trends and their associated changes.

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